

New Issue  
Book-Entry Only

Moody's Rating: Aaa (underlying Aa2)  
Standard & Poor's Rating: AAA (underlying AA-)  
(See "Other Bond Information—Bond Insurance" and "—Ratings.")

*In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issue date of the Bonds, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals. However, while interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by certain S corporations may be subject to tax, and interest on the Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. Receipt of interest on the Bonds may have other federal tax consequences for certain taxpayers. See "Tax Exemption" and "Certain Other Federal Tax Consequences" under "Legal and Tax Information" herein.*

**\$78,550,000**

**THE CITY OF SEATTLE, WASHINGTON**  
**DRAINAGE AND WASTEWATER REVENUE AND REFUNDING BONDS, 2002**

**DATED: DECEMBER 1, 2002**

**DUE: JULY 1, AS SHOWN ON INSIDE COVER**

The Bonds will be issued as fully registered bonds under a book-entry only system, registered in the name of Cede & Co. as registered owner and nominee for DTC. DTC will act as initial securities depository for the Bonds. Individual purchases of the Bonds will be made in book-entry form, in the denomination of \$5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their interest in the Bonds purchased. Interest on the Bonds will be payable semiannually on each January 1 and July 1, beginning July 1, 2003. The principal of and interest on the Bonds are payable by the City's Bond Registrar, currently the fiscal agent of the State of Washington (currently The Bank of New York in New York, New York), to DTC, which in turn is obligated to remit such payments to its participants for subsequent disbursement to beneficial owners of the Bonds, as described in "Description of the Bonds—Book-Entry Transfer System" and in Appendix E.

The Bonds are being issued to provide funds to pay for certain capital improvements and additions to the Drainage and Wastewater System, to provide for the Reserve Requirement, to pay for costs of issuing and selling the Bonds, and to refund certain outstanding Bonds of the Drainage and Wastewater System.

The Bonds are subject to redemption prior to maturity as described herein. See "Description of the Bonds—Redemption of Bonds."

The Bonds are special limited obligations of the City. The Net Revenue of the Drainage and Wastewater System is pledged for the payment of the Parity Bonds, including the Bonds. This pledge constitutes a lien and charge upon Net Revenue equal to the lien and charge of the Outstanding Parity Bonds and superior to other liens and charges. See "Security for the Bonds."

Payment of the principal of and interest on the Bonds when due will be insured by a municipal bond insurance policy to be issued simultaneously with the delivery of the Bonds by Financial Guaranty Insurance Company.



FGIC is a registered service mark used by Financial Guaranty Insurance Company, a private company not affiliated with any U.S. Government agency.

The Bonds do not constitute general obligations of The City of Seattle, the State of Washington or any political subdivision of the State, or a charge upon any general fund or upon any money or other property of the City, the State or any political subdivision of the State not specifically pledged thereto by the ordinance authorizing the Bonds. Neither the full faith and credit nor the taxing power of the City, nor any revenues of the City derived from sources other than the Drainage and Wastewater System, are pledged to the payment of the Bonds.

**MATURITY SCHEDULE LOCATED ON INSIDE COVER**

The Bonds are offered for delivery by the Purchaser when, as and if issued, subject to the approving legal opinion of Foster Pepper & Shefelman PLLC, Seattle, Washington, Bond Counsel. The form of Bond Counsel's opinion is attached hereto as Appendix B. It is expected that the Bonds will be ready for delivery at the facilities of DTC in New York, New York, or to the Bond Registrar on behalf of DTC by Fast Automated Securities Transfer on or about December 17, 2002.

*This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire official statement to obtain information essential to the making of an informed investment decision.*

Dated: November 20, 2002

## MATURITY SCHEDULE

**\$78,550,000**

**THE CITY OF SEATTLE, WASHINGTON  
DRAINAGE AND WASTEWATER REVENUE AND REFUNDING BONDS, 2002**

**\$43,825,000 SERIAL BONDS**

<b><u>Due July 1</u></b>	<b><u>Amounts</u></b>	<b><u>Interest Rates</u></b>	<b><u>Yields</u></b>	<b><u>CUSIP Numbers</u></b>
2003	\$ 920,000	3.00%	1.48%	812631BH1
2004	1,620,000	4.00	1.78	812631BJ7
2005	1,690,000	4.00	2.13	812631BK4
2006	1,750,000	4.00	2.50	812631BL2
2007	1,825,000	4.00	2.84	812631BM0
2008	1,900,000	4.00	3.14	812631BN8
2009	1,975,000	4.00	3.35	812631BP3
2010	2,050,000	4.50	3.58	812631BQ1
2011	2,145,000	4.50	3.75	812631BR9
2012	2,235,000	4.50	3.85	812631BS7
2013	2,340,000	4.50	3.99*	812631BT5
2014	2,450,000	4.75	4.16*	812631BU2
2015	2,560,000	4.75	4.28*	812631BV0
2016	2,680,000	5.20	4.34*	812631BW8
2017	2,820,000	5.25	4.44*	812631BX6
2018	2,975,000	5.25	4.54*	812631BY4
2019	3,130,000	5.25	4.64*	812631BZ1
2020	3,295,000	5.25	4.74*	812631CA5
2021	3,465,000	5.25	4.84*	812631CB3

**TERM BONDS**

<b><u>Due July 1</u></b>	<b><u>Amounts</u></b>	<b><u>Interest Rates</u></b>	<b><u>Yields</u></b>	<b><u>CUSIP Numbers</u></b>
2028	20,455,000	5.00%	5.00%	812631CJ6
2032	14,270,000	5.00	5.04	812631CN7

(Plus accrued interest from the dated date.)

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\* Priced to the July 1, 2012, par call date.

## **THE CITY OF SEATTLE**

### **CITY OFFICIALS AND CONSULTANTS**

#### **MAYOR AND CITY COUNCIL**

Greg Nickels	Mayor
Peter Steinbrueck	President, City Council
Jim Compton	Council Member
Richard Conlin	Council Member
Jan Drago	Council Member
Nick Licata	Council Member
Richard McIver	Council Member
Judy Nicastro	Council Member
Margaret Pageler	Council Member
Heidi Wills	Council Member

#### **CITY ADMINISTRATION**

Dwight D. Dively	Director of Finance
Thomas A. Carr	City Attorney

#### **SEATTLE PUBLIC UTILITIES**

Chuck Clarke	Director
Nick Pealy	Finance and Administration Branch Executive
Patricia Colson	Customer Service Branch Executive
Nancy Ahern	Resource Planning Branch Executive
Thomas J. Tanner	Engineering Services Branch Executive
Scott Haskins	Field Operations Branch Executive

#### **BOND COUNSEL**

Foster Pepper & Shefelman PLLC  
Seattle, Washington

#### **FINANCIAL ADVISOR**

Seattle-Northwest Securities Corporation  
Seattle, Washington

*No dealer, broker, salesperson, or other person has been authorized by the City to give any information or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the City. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy the Bonds, nor will there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.*

*The information set forth herein has been furnished by the City, DTC and certain other sources that are believed to be reliable. The information and expressions of opinion contained herein are subject to change without notice. Any statements made in this Official Statement involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact or representations that the estimates will be realized.*

*Neither the Drainage and Wastewater System's independent auditors, nor any other independent accountants, have compiled, examined, or performed any procedures with respect to the projected financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the prospective financial information.*

*Other than with respect to information concerning Financial Guaranty Insurance Corporation ("Financial Guaranty") contained under "Other Bond Information—Bond Insurance," in Appendix F—Certain Information Regarding the Reserve Policy and in Appendix G—Municipal Bond Insurance Policy Specimen herein, none of the information in this Official Statement has been supplied or verified by Financial Guaranty and Financial Guaranty makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Bonds; or (iii) the tax exempt status of the interest on the Bonds. Neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof.*

*This Official Statement is not to be construed as a contract with the purchasers of the Bonds.*

*The Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon a specific exemption contained in such act, nor have they been registered under the securities laws of any state.*

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## OFFICIAL STATEMENT

**\$78,550,000**

**THE CITY OF SEATTLE, WASHINGTON**

**DRAINAGE AND WASTEWATER REVENUE AND REFUNDING BONDS, 2002**

This Official Statement, which includes the cover page and the appendices, contains certain information concerning The City of Seattle (the “City” or “Seattle”), Seattle Public Utilities (“SPU”), the City’s drainage and wastewater system (the “Drainage and Wastewater System”), and the City’s Drainage and Wastewater Revenue and Refunding Bonds, 2002 (the “Bonds”), in connection with the offering and sale of the Bonds.

The Bonds are being issued to provide funds to pay for certain capital improvements and additions to the Drainage and Wastewater System, to meet the Reserve Requirement, to pay for certain costs of issuing and selling the Bonds, and to refund all of the City’s outstanding Drainage and Wastewater Utility Revenue Bonds, 1992, dated January 1, 1993 (the “1992 Bonds”). The Bonds are to be issued pursuant to Ordinance 120386, passed by the City Council on May 29, 2001 (the “2001 Ordinance”), and Ordinance 120965, passed by the City Council on November 12, 2002 (the “2002 Ordinance and, together with the 2001 Ordinance, the “Ordinance”), and Resolution 30548, adopted on November 20, 2002 (the “Resolution”) (collectively, the “Bond Legislation”).

Appendix A to this Official Statement is the 2002 Ordinance. Appendix B is the form of approving legal opinion of Foster Pepper & Shefelman PLLC of Seattle, Washington (“Bond Counsel”). Appendix C is the Drainage and Wastewater System’s audited 2001 financial statements. Appendix D provides demographic and economic information about the City. Appendix E is a description of DTC procedures with respect to book-entry bonds. Appendix F provides certain information regarding the reserve policy. Appendix G is a municipal bond insurance policy specimen. Capitalized terms which are not defined herein have the meanings set forth in the Bond Legislation.

### DESCRIPTION OF THE BONDS

#### **Registration and Denomination**

The Bonds are issuable only as fully registered bonds and when issued will be registered in the name of Cede & Co. as registered owner and nominee for the Depository Trust Company (“DTC”), New York, New York. DTC will act as initial securities depository for the Bonds. Purchases of the Bonds will be made in book-entry form, in the denomination of \$5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their interest in the Bonds purchased.

The Bonds will be dated December 1, 2002. The Bonds will mature on the dates and in the amounts and will bear interest (payable semiannually on each January 1 and July 1, beginning July 1, 2003) at the rates set forth on the cover of this Official Statement. Interest on the Bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months. Principal is payable on each July 1 in the amounts set forth on the cover of this Official Statement. The principal of and interest on the Bonds are payable by the City’s Bond Registrar, currently the fiscal agent of the State of Washington (currently The Bank of New York in New York, New York) to DTC, which in turn is obligated to remit such payments to its participants for subsequent disbursement to beneficial owners of the Bonds, as described herein under “Description of the Bonds—Book-Entry Transfer System” and in Appendix E.

#### **Redemption of Bonds**

*Optional Redemption.* The Bonds maturing before July 1, 2013, are not subject to redemption prior to maturity. The Bonds maturing on and after July 1, 2013, are subject to redemption prior to maturity at the

option of the City on and after July 1, 2012, as a whole or in part at any time (maturities to be selected by the City and within a maturity by lot in such manner as the Bond Registrar may determine and, so long as the Bonds are in book-entry form, in accordance with the procedures established by the securities depository) at par plus accrued interest.

**Mandatory Redemption.** The Bonds maturing on July 1, 2028, and July 1, 2032, are Term Bonds. If not previously redeemed as described above, the Term Bonds will be called for redemption (in such manner as DTC will determine) at a price of par plus accrued interest to the redemption date, on July 1 in the years and amounts as follows:

<b>2028 Term Bonds</b>		<b>2032 Term Bonds</b>	
<b>Years</b>	<b>Amounts</b>	<b>Years</b>	<b>Amounts</b>
2022	\$ 3,645,000	2029	\$ 3,310,000
2023	2,470,000	2030	3,475,000
2024	2,595,000	2031	3,650,000
2025	2,725,000	2032*	3,835,000
2026	2,860,000		
2027	3,005,000		
2028*	3,155,000		

\* Final maturity

If the City redeems Term Bonds under the optional redemption provisions described above or purchases Term Bonds in the open market as described below, the par amount of the Term Bonds so redeemed or purchased (irrespective of their actual redemption or purchase prices) will be credited against the remaining scheduled mandatory redemption requirements for those Term Bonds in a manner to be determined by the City or, if no such determination is made, on a pro-rata basis.

**Notice of Redemption.** Notice of any intended redemption will be given not less than 30 nor more than 60 days prior to the redemption date by first-class mail, postage prepaid, to the registered owner of any Bond to be redeemed at the address appearing on the Bond Register at the time the Bond Registrar prepares the notice. The requirements of this section will be deemed to have been fulfilled when the notice is mailed, whether or not it actually is received by the registered owner of any Bond. As long as the Bonds are held in book-entry form, notices will follow procedures established by the securities depository. See “Description of the Bonds—Book-Entry Transfer System.”

### **No Acceleration of the Bonds**

The Bonds are not subject to acceleration upon the occurrence of a default. The City, therefore, would be liable only for principal and interest payments as they become due. In the event of multiple defaults in payment of principal or interest on the Parity Bonds, the registered owners would be required to bring a separate action for each such payment not made. This could give rise to a difference in interests between registered owners of earlier and later maturing Parity Bonds.

### **Open Market Purchase**

The City reserves the right to purchase any or all of the Bonds on the open market at any time at any price acceptable to the City plus accrued interest to the date of purchase.

### **Book-Entry Transfer System**

**Book-Entry Bonds.** DTC will act as initial securities depository for the Bonds. The ownership of one fully registered Bond for each maturity, as set forth on the cover of this Official Statement, each in the aggregate principal amount of such maturity, will be registered in the name of Cede & Co., as nominee for DTC. See Appendix E for additional information. *As indicated therein, certain information in Appendix E has been provided by DTC. The City makes no representation as to the accuracy or completeness thereof. Purchasers of the Bonds should confirm its contents with DTC or its participants.*

*Termination of Book-Entry Transfer System.* If DTC resigns as the securities depository and the City is unable to retain a qualified successor to DTC or if the City determines that a continuation of the book-entry transfer system is not in the best interests of the City, the City will deliver at no cost to the beneficial owners of the Bonds or their nominees Bonds in registered certificate form, in the denomination of \$5,000 or any integral multiple thereof. Thereafter, the principal of the Bonds will be payable upon due presentment and surrender thereof at the principal office of the Bond Registrar. Interest on the Bonds will be payable by check or draft mailed on the interest payment date to the persons in whose names the Bonds are registered, at the address appearing upon the Bond Register on the 15th day of the month next preceding the interest payment date or, at the request of the owner of \$1,000,000 or more in aggregate principal amount of Bonds, by wire transfer to the account in the United States designated in writing by the owner prior to the Record Date. The Bonds will be transferable as provided in the Ordinance.

### **Refunding or Defeasance of Bonds**

The City may issue refunding bonds or use money available from any other lawful source to redeem and retire, release, refund, or defease the Bonds or any portion thereof (the “Defeased Bonds”). If sufficient money and/or Government Obligations, taking into account known earned income from the investment thereof, are set aside in a special fund pledged to the redemption, retirement or defeasance of the Defeased Bonds (the “Trust Account”), then all right and interest of the owners of the Defeased Bonds in the pledges and covenants of the Ordinance and in the revenues and the funds and accounts pledged to the payment of the Defeased Bonds will cease and become void. Such owners thereafter will receive payment of the principal of and interest or redemption price on the Defeased Bonds from the Trust Account. See Appendix A—The 2002 Ordinance—Refunding and Defeasance.

## **USE OF PROCEEDS**

The proceeds of the Bonds will provide funds to (i) provide funds to pay for certain capital improvements and additions to the Drainage and Wastewater System, (ii) to provide for the Reserve Requirement, (iii) to pay for the costs of issuing and selling the Bonds, and (iv) to refund all of the 1992 Bonds.

### **Sources and Uses of Funds**

The proceeds of the Bonds (less accrued interest) will be applied as follows:

<u>Sources of Funds</u>	
Par Amount of Bonds	\$ 78,550,000
Net Premium	<u>1,939,452</u>
Total Sources of Funds	<u>\$ 80,489,452</u>
 <u>Uses of Funds</u>	
Project Fund	\$ 62,000,000
Refunding Escrow Deposit	18,073,402
Costs of Issuance and Contingency*	<u>417,050</u>
Total Uses of Funds	<u>\$ 80,489,452</u>

\* Includes Reserve Insurance, Issuance Expenses and Underwriter’s Discount.

### **Refunding Plan**

A portion of the proceeds from the sale of the Bonds will be used to refund all of the 1992 Bonds, as shown in the table below, to realize debt service savings.

## REFUNDED BONDS

1992 Bonds	Maturity Date	Interest	Par Amount	Call Date	Call Price
		Rate (%)			
Serials	12/01/2003	5.400	\$ 495,000	01/16/2003	102
	12/01/2004	5.500	520,000	01/16/2003	102
	12/01/2005	5.700	550,000	01/16/2003	102
	12/01/2006	5.750	580,000	01/16/2003	102
	12/01/2007	5.800	615,000	01/16/2003	102
	12/01/2008	5.800	650,000	01/16/2003	102
Term	12/01/2013	6.000	3,860,000	01/16/2003	102
Term	12/01/2022	5.750	<u>10,445,000</u>	01/16/2003	101
Total			\$ 17,715,000		

*Procedure.* From a portion of the proceeds of the Bonds, the City will purchase certain direct, noncallable obligations of the United States ("Acquired Obligations"), which will be deposited in the custody of U.S. Bank, N.A., or such other duly appointed successors ("Refunding Trustee"). The maturing principal of the Acquired Obligations, interest earned thereon, and cash, if necessary, will pay the principal of and redemption premium and interest accrued on the 1992 Bonds on January 16, 2003.

The Acquired Obligations, interest earned thereon and cash, if necessary, will be pledged irrevocably to and held in trust for the benefit of the owners of the 1992 Bonds by the Refunding Trustee, pursuant to a Refunding Trust Agreement to be executed by the City and the Refunding Trustee.

*Verification of Mathematical Calculations.* The accuracy of the mathematical computations of the adequacy of the maturing principal amounts of and interest on the Acquired Obligations to be held by the Refunding Trustee to pay the principal of and accrued interest and redemption premium on the 1992 Bonds as described above will be verified by Grant Thornton LLP, independent certified public accountants.

## SECURITY FOR THE BONDS

### Pledge of Net Revenue

The Bonds are special limited obligations of the City. The Net Revenue of the Drainage and Wastewater System is pledged for the payment of the Parity Bonds, including the Bonds. See "Outstanding Bonds" below. This pledge constitutes a lien upon Net Revenue equal to the lien and charge of the Outstanding Parity Bonds and superior to other liens and charges (see "Outstanding Parity Bonds" below). Upon the maturity, redemption or defeasance of all of the then outstanding 1992 Bonds and 1995 Bonds, all ULID Assessments will be pledged to the payment of Parity Bonds. The City has reserved the right to combine the Drainage and Wastewater System with other City utility systems upon the maturity, redemption or defeasance of the outstanding 1992 Bonds and 1995 Bonds. See "Combined Utility Systems" below.

**The Bonds do not constitute general obligations of the City, the State of Washington (the "State") or any political subdivision of the State, or a charge upon any general fund or upon any money or other property of the City, the State or any political subdivision of the State not specifically pledged thereto by the Ordinance. Neither the full faith and credit nor the taxing power of the City, nor any revenues of the City derived from sources other than the Drainage and Wastewater System, are pledged to the payment of the Bonds.**

The Bond Account has been created in the Drainage and Wastewater Fund for the sole purpose of paying the principal of and interest on all Parity Bonds (see "Outstanding Bonds"), including the Bonds. The City has agreed to pay into the Bond Account on or prior to the respective dates on which principal and interest are

payable, certain amounts from the Net Revenue of the Drainage and Wastewater System sufficient to pay such principal and interest when due. See Appendix A—The 2002 Ordinance—Security for Parity Bonds; Flow of Funds.

### **Reserve Subaccount**

The Reserve Subaccount has been created in the Bond Account to secure the payment of the principal of and interest on the Parity Bonds. Under the terms of the Ordinance, the City must fund the increase in the Reserve Requirement (the least of (i) Maximum Annual Debt Service at the time of calculation, (ii) 1.25 times Average Annual Debt Service on the Parity Bonds at the time of calculation or (iii) ten percent of the proceeds of the Bonds) due to the issuance of the Bonds from cash, Permitted Investments or an Alternate Security, or any combination thereof. The Reserve Requirement may be provided within five years after the issuance of the Bonds in accordance with the terms of the Ordinance. The City will fund the Reserve Requirement for the Bonds with an Alternate Security in the form of a Municipal Bond Debt Service Reserve Insurance Policy (the “Reserve Policy”) to be purchased from Financial Guaranty Insurance Corporation. See Appendix A—The 2002 Ordinance—Definitions and —Security for Parity Bonds; Flow of Funds. See also Appendix F—Certain Information Regarding the Reserve Policy.

### **Outstanding Parity Bonds**

Outstanding obligations (other than the Bonds) payable from the Bond Account on parity with the Bonds are \$21,725,000 original principal amount of Drainage and Wastewater Utility Revenue Bonds, 1992 (the “1992 Bonds”), \$40,390,000 original principal amount of Drainage and Wastewater Utility Improvement and Refunding Revenue Bonds, 1995 (the “1995 Bonds”), \$24,170,000 original principal amount of Drainage and Wastewater Revenue Bonds, 1998 (the “1998 Bonds”), \$55,000,000 original principal amount of Drainage and Wastewater Revenue Bonds, 1999 (the “1999 Bonds”), and \$60,680,000 original principal amount of Drainage and Wastewater Revenue Bonds, 2001 (the “2001 Bonds”) (collectively, the “Outstanding Parity Bonds”). As of November 1, 2002, the aggregate principal amount of the Outstanding Parity Bonds was \$189,400,000, of which the entire outstanding principal amount (\$17,715,000) of the 1992 Bonds will be refunded by the Bonds. The Outstanding Parity Bonds, the Bonds and any Future Parity Bonds are referred to herein as the “Parity Bonds.”

### **Additional Obligations**

*Future Parity Bonds.* Future Parity Bonds may be issued upon satisfaction of certain conditions set forth in the Ordinance. Among other conditions, at the time of the issuance of the Future Parity Bonds, the City must have on file a certificate from an independent, licensed professional engineer or a certified public accountant (the “Parity Certificate”) showing that the Net Revenue will be equal to 1.25 times the Average Annual Debt Service (the “Coverage Requirement”). In the Parity Certificate, the estimate of Net Revenue will use the historical Gross Revenue for any twelve consecutive months out of the twenty-four months immediately preceding the month the Future Parity Bonds are delivered. Further adjustments may be made to Gross Revenue, as described in the Ordinance. See Appendix A—The 2002 Ordinance—Future Parity Bond Conditions. If the Future Parity Bonds are for the sole purpose of refunding outstanding Parity Bonds, then the Parity Certificate will not be required if the Annual Debt Service in each year for the refunding bonds is not increased over the amount required for the refunded bonds and the maturities of the refunding bonds are not extended beyond those of the refunded bonds.

With the defeasance of all of the then outstanding 1992 Bonds (which will occur upon the closing of the Bonds), the Parity Certificate may be provided by the Director of the Seattle Public Utilities.

Upon the maturity, redemption or defeasance of all of the then outstanding 1992 Bonds and 1995 Bonds, (i) all references to “Net Revenue” in the Parity Certificate will be changed to “Adjusted Net Revenue” and (ii) as an alternative to the Parity Certificate, the City may provide certification of the Director of Finance or the Director of Seattle Public Utilities demonstrating that, during any twelve consecutive calendar months out of the immediately preceding twenty-four calendar months, Adjusted Net Revenue was at least equal to the Coverage Requirement for all Parity Bonds plus the Future Parity Bonds. See Appendix A—The 2002 Ordinance—Future Parity Bond Conditions.

*Payment Agreements.* With the defeasance of all of the then outstanding 1992 Bonds (which will occur upon the closing of the Bonds), the City may enter into one or more Payment Agreements secured by a pledge and lien on Net Revenue on a parity with the Parity Bonds subject to the satisfaction of the requirements for the issuance of Future Parity Bonds. See Appendix A—The 2002 Ordinance—Definitions and —Future Parity Bond Conditions.

*Contract Resource Obligations.* Upon the maturity, redemption or defeasance of all of the then outstanding 1992 Bonds and 1995 Bonds, the City may enter into one or more Contract Resource Obligations for the acquisition, from facilities to be constructed, of drainage and wastewater or other commodity or service, and may determine that all payments under the Contract Resource Obligation (including payments prior to the time such supply or service is being provided, or during a termination or suspension of supply or service) will be an Operating and Maintenance Expense, upon compliance with certain requirements of the Ordinance. See Appendix A—The 2002 Ordinance—Contract Resource Obligations.

*Future Subordinate Lien Bonds.* In the Ordinance, the City has reserved the right to issue revenue bonds or other obligations having a lien on Gross Revenue subordinate to the lien thereon of the Parity Bonds.

### **Rate Covenant**

The City has covenanted to establish, maintain, revise as necessary, and collect rates for drainage and wastewater service which will produce Net Revenue (or, upon the maturity, redemption or defeasance of all of the then outstanding 1992 Bonds and 1995 Bonds, Adjusted Net Revenue) available for debt service in each calendar year at least equal to the Coverage Requirement. See Appendix A—The 2002 Ordinance—Parity Bond Covenants.

### **Other Covenants**

The City has entered into other covenants, including those with respect to (i) maintenance of the Drainage and Wastewater System, (ii) sale of the Drainage and Wastewater System and (iii) preservation of tax exemption for interest on the Bonds. See Appendix A—The 2002 Ordinance—Parity Bond Covenants, and —Preservation of Tax Exemption for Interest on Bonds.

### **Rate Stabilization Account**

Upon the maturity, redemption or defeasance of all of the then outstanding 1992 Bonds and 1995 Bonds, the City may deposit Gross Revenue and other money into the Rate Stabilization Account and may withdraw money from that account for inclusion in Adjusted Gross Revenue for any fiscal year of the Drainage and Wastewater System. No deposit of Gross Revenue will be made into the Rate Stabilization Account to the extent that such deposit would prevent the City from meeting the Coverage Requirement. See Appendix A—The 2002 Ordinance—Rate Stabilization Account.

### **Combined Utility Systems**

The City has reserved the right to combine the Drainage and Wastewater System with other City utility systems, including their funds, upon the maturity, redemption or defeasance of all of the then outstanding 1992 Bonds and 1995 Bonds. See Appendix A—The 2002 Ordinance—Definitions.

### **Separate Utility Systems**

Upon the maturity, redemption or defeasance of the 1992 Bonds and the 1995 Bonds, the City may create, acquire, construct, finance, own, and operate one or more additional systems for drainage and wastewater or other related commodity or service. The revenue of the separate system will not be included in Gross Revenue, and may be pledged to the payment of revenue obligations issued for the purposes of the separate system. Neither the Gross Revenue nor the Net Revenue of the Drainage and Wastewater System will be pledged to the payment of any obligations of the separate system, except as a Contract Resource Obligation or on a basis subordinate to the lien of the Parity Bonds on that Net Revenue. See Appendix A—The 2002 Ordinance—Separate Utility Systems.

## **DEBT SERVICE REQUIREMENTS**

The following table shows the debt service to be paid from the Net Revenue of the Drainage and Wastewater System.

# DEBT SERVICE REQUIREMENTS

Year	1995 Bonds		1998 Bonds		1999 Bonds		2001 Bonds		2002 Bonds		Total Debt Service
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2002	\$ 985,000	\$ 1,895,296	\$ 435,000	\$ 1,117,275	\$ 890,000	\$ 2,971,406	\$ 1,000,000	\$ 3,010,724	\$ 0	\$ 0	\$ 12,304,701
2003	1,035,000	1,846,046	455,000	1,097,700	930,000	2,933,581	1,030,000	2,968,224	920,000	2,210,657	15,426,208
2004	1,090,000	1,794,296	480,000	1,077,225	970,000	2,892,894	1,065,000	2,924,449	1,620,000	3,762,098	17,675,961
2005	1,140,000	1,739,796	500,000	1,055,625	1,015,000	2,849,244	1,100,000	2,879,186	1,690,000	3,697,298	17,666,149
2006	1,205,000	1,682,796	525,000	1,032,500	1,060,000	2,802,300	1,145,000	2,832,436	1,750,000	3,629,698	17,664,730
2007	1,265,000	1,622,546	550,000	1,006,250	1,110,000	2,751,950	1,190,000	2,783,774	1,825,000	3,559,698	17,664,217
2008	1,325,000	1,559,296	575,000	978,750	1,165,000	2,699,225	1,235,000	2,733,199	1,900,000	3,486,698	17,657,167
2009	1,400,000	1,493,046	605,000	950,000	1,225,000	2,642,431	1,290,000	2,680,711	1,975,000	3,410,698	17,671,886
2010	1,465,000	1,421,646	635,000	919,750	1,285,000	2,581,181	1,345,000	2,625,886	2,050,000	3,331,698	17,660,161
2011	1,545,000	1,346,931	665,000	888,000	1,355,000	2,516,931	1,400,000	2,568,724	2,145,000	3,239,448	17,670,034
2012	1,625,000	1,267,750	700,000	854,750	1,425,000	2,447,488	1,465,000	2,507,474	2,235,000	3,142,923	17,670,384
2013	1,710,000	1,184,469	735,000	819,750	1,500,000	2,365,550	1,535,000	2,441,549	2,340,000	3,042,348	17,673,665
2014	1,800,000	1,096,831	775,000	783,000	1,585,000	2,279,300	1,605,000	2,370,555	2,450,000	2,937,048	17,681,734
2015	1,895,000	1,004,581	815,000	744,250	1,670,000	2,188,163	1,685,000	2,294,318	2,560,000	2,820,673	17,676,984
2016	1,995,000	907,463	860,000	703,500	1,765,000	2,092,138	1,765,000	2,213,438	2,680,000	2,699,073	17,680,611
2017	2,105,000	802,725	905,000	660,500	1,865,000	1,990,650	1,855,000	2,125,188	2,820,000	2,559,713	17,688,775
2018	2,220,000	692,213	955,000	615,250	1,970,000	1,883,413	1,950,000	2,032,438	2,975,000	2,411,663	17,704,976
2019	2,340,000	575,663	1,005,000	567,500	2,080,000	1,770,138	2,050,000	1,934,938	3,130,000	2,255,475	17,708,713
2020	2,465,000	452,813	1,060,000	517,250	2,200,000	1,650,538	2,160,000	1,830,388	3,295,000	2,091,150	17,722,138
2021	1,100,000	323,400	1,120,000	464,250	2,325,000	1,524,038	2,270,000	1,719,688	3,465,000	1,918,163	16,229,538
2022	1,160,000	265,650	1,180,000	408,250	2,460,000	1,390,350	2,390,000	1,603,350	3,645,000	1,736,250	16,238,850
2023	1,230,000	204,750	1,250,000	349,250	2,600,000	1,248,900	2,520,000	1,477,875	2,470,000	1,554,000	14,904,775
2024	1,300,000	140,175	1,320,000	286,750	2,750,000	1,099,400	2,650,000	1,345,575	2,595,000	1,430,500	14,917,400
2025	1,370,000	71,925	1,390,000	220,750	2,910,000	941,275	2,790,000	1,206,450	2,725,000	1,300,750	14,926,150
2026	0	0	1,470,000	151,250	3,080,000	773,950	2,940,000	1,059,975	2,860,000	1,164,500	13,499,675
2027	0	0	1,555,000	77,750	3,265,000	596,850	3,100,000	905,625	3,005,000	1,021,500	13,526,725
2028	0	0	0	0	3,455,000	409,113	3,265,000	742,875	3,155,000	871,250	11,898,238
2029	0	0	0	0	3,660,000	210,450	3,440,000	571,463	3,310,000	713,500	11,905,413
2030	0	0	0	0	0	0	3,625,000	390,863	3,475,000	548,000	8,038,863
2031	0	0	0	0	0	0	3,820,000	200,550	3,650,000	374,250	8,044,800
2032	0	0	0	0	0	0	0	0	3,835,000	191,750	4,026,750
	\$ 36,770,000	\$ 25,392,103	\$ 22,520,000	\$ 18,347,075	\$ 53,570,000	\$ 54,502,844	\$ 60,680,000	\$ 58,981,883	\$ 78,550,000	\$ 67,112,462	\$ 476,426,366

## SEATTLE PUBLIC UTILITIES

### Administrative Structure

Seattle's drainage, wastewater, water, and solid waste utility services were consolidated administratively into a single entity known as Seattle Public Utilities ("SPU") in 1997. Within SPU, there are four separate funds: the Drainage and Wastewater Fund, the Water Fund, the Solid Waste Fund, and the Engineering Services Fund. The City has reserved the right to combine the Drainage and Wastewater Fund with other City utility funds upon the maturity, redemption or defeasance of all of certain outstanding bonds.

### Management

SPU consists of the Director's Office and five Executive Branches: the Finance and Administration Branch, the Customer Service Branch, the Resource Planning Branch, the Engineering Services Branch, and the Field Operations Branch. The Director administers SPU in accordance with policies established by the Mayor of Seattle (the "Mayor") and the City Council. Brief biographies of the members of SPU's Executive Management Team follow.

*Chuck Clarke, Director.* Mr. Clarke became Director of SPU in January 2002. Prior to this appointment, he served as deputy mayor for the City, responsible for issues and projects dealing with utilities, transportation and the environment. He is the former Regional Administrator for the Environmental Protection Agency. He holds a bachelor's degree in biology and a master's degree in business administration from Pacific Lutheran University.

*Nick Pealy, Finance and Administration Branch Executive.* Mr. Pealy joined SPU in 1997 as Director of Finance and was promoted to his current position in 2001. He has worked for the City since 1987 as an economist for the City Council and as a rates supervisor and finance director for the Solid Waste Utility. He holds a bachelor's degree in political science and mathematics from Whitman College and a master's degree in economics from the University of Washington.

*Patricia Colson, Customer Service Branch Executive.* Ms. Colson has served as Branch Executive of Customer Service of SPU since it was created in 1997. Prior to her appointment she served as the Water Department's Account Services Director. Ms. Colson holds a bachelor's degree in education and social science from the University of Puget Sound and a master's degree in education from the University of Washington.

*Nancy Ahern, Resource Planning Branch Executive.* Ms. Ahern was appointed to this position in 2001. Prior to the appointment she was manager of the Water and Land Resources Division for King County. Ms. Ahern holds a bachelor's degree in biology and environmental studies from Principia College and a Ph. D. degree in natural resource management from the University of Michigan.

*Thomas J. Tanner, Engineering Services Branch Executive.* Mr. Tanner was appointed Engineering Services Branch Executive in 1998, and oversees engineering, design, project management, and construction management for SPU, as well as construction contractor management functions for Seattle City Light and the Seattle Transportation Department. Mr. Tanner holds a bachelor's degree in civil engineering from California State University and a master's degree in public works management from the University of Pittsburgh. He is a graduate of Northwestern University's Executive Management Program and is a registered professional civil engineer.

*Scott Haskins, Field Operations Branch Executive.* Mr. Haskins became Branch Executive of Field Operations in 2001. Prior to that appointment he had served as Resource Management Branch Executive and as the Deputy Superintendent of the Water Department (now the Water System). He is the past president of the Seattle Management Association and Chair of the West Coast Water Utilities Benchmarking Group. He holds a bachelor's degree in political science and a master's degree in public administration from the University of Washington.

## **Employee Relations**

SPU has approximately 1,200 employees, almost all of whom are members of the City's Employee Retirement System. The Retirement System requires SPU, like all City departments, to make contributions equal to an actuarially determined percentage of covered payrolls. See "The City of Seattle—Pension System." Approximately 75 percent of SPU employees are represented by five unions. SPU believes that labor relations are satisfactory. See "The City of Seattle—Labor Relations."

## **DRAINAGE AND WASTEWATER SYSTEM**

### **Wastewater Services**

The City began building public sewers in 1882 in order to protect public health and the quality of life. Over half of the current system was built in the first three decades of this century, long before sewage treatment was contemplated. Consistent with the then current practice, combined sewers were built to carry both stormwater and wastewater. This practice not only saved the expense of building a second pipe, it also provided dilution to flush the sewers and the discharge sites. Wastewater was discharged untreated at nearby sites along Puget Sound, the Duwamish Waterway, Lake Washington, or Lake Union and the Ship Canal. As the community realized that untreated sewage discharges caused water quality problems, the City began to separate the combined stormwater and wastewater systems and to build sewage treatment plants. By the 1950s, the City had over 1,000 miles of combined sewers and 500 miles of separate sanitary sewer lines, and was operating three primary sewage treatment plants and numerous rudimentary treatment devices at discharge sites. The City formed the Sewer Utility within the Engineering Department in 1955, and began charging City residents and businesses for sewer service the following year.

### **Regional Treatment and Disposal**

In 1958, a regional sewage treatment agency, the Municipality of Metropolitan Seattle ("Metro"), was formed to provide a regional solution to water quality problems. The City, rather than expanding its own treatment facilities, entered into a contract with Metro for sewage treatment. Metro is responsible for and has built major treatment plants along with an extensive regional interceptor system to route sewage to the plants and stop discharges into Lake Washington.

In 1994, Metro and King County (the "County") were merged following voter approval. Since then, the County has been responsible for sewage treatment and disposal and has entered into long-term contracts with local sewage agencies, including the City, which remain responsible for their own local collection and transmission lines. The County currently provides services to or has contracts for future service with 32 cities, sewer districts and others, including the City. The City's current agreement with the County expires July 1, 2036.

In December 1999, the King County Council adopted a 30-year comprehensive Regional Wastewater Services Plan (the "RWSP"). The RWSP outlines the programs and projects needed to provide continuing wastewater collection and treatment services to a rapidly growing population in King and south Snohomish Counties. One key element of the RWSP is the construction of a new 36 million gallons per day ("mgd") treatment plant and its associated conveyance system (including an outfall to Puget Sound) by 2010. Other projects include building conveyance improvements in the north service area to provide enhanced protection against overflows, extending and upgrading conveyance pipes systemwide, expanding the South Treatment Plant from 115 to 135 mgd by 2029, and constructing 22 combined sewer overflow ("CSO") projects. King County also will construct projects to control inflow and infiltration, process biosolids and produce reclaimed water. The total cumulative capital cost of the RWSP in 2001 dollars is approximately \$1.732 billion.

The County finances the capital and operating costs of its sewage treatment and disposal system, including the RWSP, with a wholesale charge to the City and other component agencies that is established by the County Council. Currently, the City's share of these costs is approximately one-half of the County's total costs; the City passes the wholesale charge on to the City's Drainage and Wastewater System ratepayers.

Based on its latest Financial Plan for the period 2002-2007, the County estimates that it will spend approximately \$1.4 billion on its capital program, funding it with \$945 million in fixed rate parity bonds, \$91 million in variable debt bonds, \$89 million in State and federal grants, and \$275 million from other sources, including \$166 million in rate revenues. The County increased wholesale rates by 18 percent in 2002 and projects its next rate increase of 8.5 percent in 2005.

### **Wastewater Rates**

Residential customers are charged based on actual water consumption from November through April and the lesser of actual consumption or average winter water consumption from May through October. Commercial customers are charged based on actual water consumption throughout the year unless they install submeters to measure actual use of the sewer system.

The current wastewater rate is \$5.19 per 100 cubic feet ("ccf"). All users are charged a minimum of one unit of service (1 ccf) per month regardless of actual consumption. The average Seattle household pays \$31.14 per month (based on consumption of 600 cubic feet per month). Qualified low-income customers pay a rate which has been discounted by 50 percent. Rates are reviewed and revised, if necessary, on an annual basis. Current rates went into effect on January 1, 2002. The tables below show City wastewater rates since 1994 and average residential charges for wastewater services in other cities on the West Coast.

#### **HISTORICAL WASTEWATER RATES**

<u>Effective Date</u>	<u>Volume Rate</u> <u>(\$/ccf)</u>
January 2002	\$ 5.19
January 2001	4.49
December 1999	4.32
January 1999	4.12
January 1996	4.05
January 1995	3.83
January 1994	3.37

#### **RESIDENTIAL WASTEWATER CHARGES**

<u>City</u>	<u>Average</u> <u>Monthly Bill*</u>
Bellevue WA	\$ 33.60
Seattle WA	31.14
Tacoma WA	28.33
Portland OR	25.99
San Francisco CA	24.68
Los Angeles CA	16.95

\*Based on rates in effect January 1, 2002.

*Source: Survey by SPU; based on average consumption reported in each respective city.*

SPU accounts are billed bimonthly for residential and small commercial customers and monthly for larger accounts through the new Consolidated Customer Service System ("CCSS"), which was brought on-line in April 2001 to replace the Combined Utility Billing System.

Customers currently receive a combined utility bill from CCSS that itemizes amounts due for water, wastewater and solid waste services. Payments received from the combined utility bills are allocated to the appropriate funds. If a payment received from a customer is insufficient to cover the total amount due and payable under the combined utility bill, that payment is credited first to the Solid Waste Fund. The balance of the payment is transferred to the Drainage and Wastewater Fund and then, if funds are available, to the Water

Fund. If an account is 33 days past due, customers receive a water shut-off notice. By State law, SPU has the authority to shut off water when an account is 40 days past due.

Because the Water Fund is affected first in the event of payment shortages, the Drainage and Wastewater Fund benefits from any enforcement action that would turn off the water supply to the delinquent payer. City ordinance further provides that in accordance with section 35.67.200 of the Revised Code of Washington ("RCW"), overdue accounts become a lien on property if not paid within 90 days and delinquent charges bear interest at the rate of eight percent per annum. As a result of this strong collection mechanism, the Drainage and Wastewater System allowance for doubtful accounts is less than 0.1 percent of revenues.

The City's sewer system serves approximately 162,000 accounts in a developed urban area. Commercial accounts have, on average, comprised approximately 16 percent of the total. SPU generally experiences very little change from year to year in the number of wastewater customers it serves. However, in 2001, the Ronald Wastewater District purchased the City's retail service area outside the City limits. This transfer affected approximately 8,100 customers, accounting for about three percent of total demand. With this transfer, the City provides retail sewer service to only 121 accounts outside the City limits, and SPU anticipates no further reductions in its sewer service area.

The following table shows charges billed to the sewer system's ten largest customers.

**TEN LARGEST WASTEWATER CUSTOMERS  
AS PERCENTAGE OF TOTAL WASTEWATER REVENUES**

<u>Customer Name</u>	<u>2001 Usage in ccf</u>	<u>2001 Charges Billed</u>	<u>Percent of Revenue</u>
University of Washington	744,308	\$ 3,339,920	3.0%
Seattle Housing Authority	559,916	2,594,074	2.3
Seattle Parks Department	165,930	745,967	0.7
Swedish Medical Center	122,234	547,974	0.5
Port of Seattle	116,810	524,671	0.5
King County Facilities	107,509	481,497	0.4
Seattle Public Schools	101,981	457,798	0.4
Harborview Medical Center	100,049	451,908	0.4
Boeing	82,555	370,096	0.3
Westin Hotel	76,880	344,029	0.3
	2,178,173	\$ 9,857,933	8.8%
Total for Fund		\$111,999,636	100.0%

Source: SPU billing records

### Drainage Services

Storm run-off in Seattle is conveyed through one of three modes: through storm drains, through a combined stormwater and wastewater system and through a ditch, culvert and creek system. Through the first half of the century, approximately two-thirds of the system was a combined stormwater and wastewater system. Beginning in the late 1960's, the City converted some of the combined system to a two-pipe system, one for stormwater run-off and the other for sanitary sewage. A ditch, culvert and creek system exists in areas of the City which originally were part of unincorporated King County and later were annexed by the City. Each of the three conveyance modes now represents about one-third of the system.

The initial development of the drainage infrastructure was largely funded by developers or Local Improvement Districts. Proceeds of a 1968 general obligation bond issue paid for much of the cost of converting the combined system to a two-pipe system. Prior to 1989, the cost of maintaining the drainage system was paid from the City's general tax revenues. In 1989, the City expanded the responsibilities of its sewer utility to include services for drainage and began charging drainage fees.

New trunk lines and detention ponds are being built to address flooding of private property adjacent to major creeks which carry City stormwater, and new residential and commercial development is regulated to avoid causing downstream problems. Also, several efforts are underway to reduce pollutants in stormwater that can contribute to water quality problems in receiving waters. SPU is responsible for coordinating the City's stormwater management programs. See "Regulations—Municipal Separated Storm Sewer System Discharges."

After completion of a Drainage Policy Study, the City Council in 1999 adopted a resolution that expanded the mission and authority of SPU to address local drainage, water quality and habitat issues, respond to listings of Puget Sound salmonid species under the Endangered Species Act, respond to changes in stormwater regulations, and coordinate drainage and surface water programs with other City departments.

In 2002 and 2003, Seattle Public Utilities will prepare an update of its Comprehensive Drainage Plan. This plan will amount to a long-term capital facilities plan for drainage services and will provide guidance for operating programs. It will include programs for water quality and public involvement, a review of maintenance and operations, a review of completed capital projects, basin plans with hydrologic and hydraulic modeling, a capital improvement plan with prioritization and scheduling, and a funding methodology. It is also intended to serve as the stormwater management plan required by the Washington Department of Ecology under the City's Municipal Stormwater NPDES Permit. The plan will look at City-wide drainage services and coordinate them with Seattle's Neighborhood Plans, other departments and ESA requirements, and with the Wastewater Program. The projected 2002-2007 Capital Improvement Program ("CIP") of \$271 million includes spending for capital projects identified as priorities during the capital funding period. See "Capital Improvement Program—Drainage Improvements." Specific projects may be modified by the Comprehensive Drainage Plan.

### Drainage Rates

The City charges drainage fees according to a property owner's benefit from or contribution to the drainage system. Single-family and duplex properties currently are charged an annual flat fee of \$99.00. All other properties are charged based on lot size and percent of impervious surface, using the following rate categories:

<u>Rate Category</u>	<u>% Impervious*</u>	<u>Annual Charge (2002)</u>
Single-family/Duplex	36 - 65%	\$ 99.00 per parcel
Commercial		
Open Space	0 - 2	92.70 per acre
Undeveloped	0 - 15	158.03 per acre
Light	16 - 35	266.95 per acre
Medium	36 - 65	484.79 per acre
Heavy	66 - 85	630.01 per acre
Very Heavy	86 - 100	775.23 per acre

\* Percent impervious refers to the amount of surface area which water cannot penetrate, thereby increasing stormwater runoff.

Current drainage rates went into effect on January 1, 2001. The following table compares the average residential charge for drainage services of comparable cities in the Northwest.

## 2002 RESIDENTIAL DRAINAGE CHARGES

<u>City</u>	<u>Average Annual Bill*</u>
Portland OR	\$ 134.34
Bellevue WA	132.48
Tacoma WA	120.17
Seattle WA	99.00

\* Based on 2002 rates.

*Source: Survey by SPU; based on average charge billed in each respective city.*

Drainage charges are collected from all property owners in Seattle as a fee on the King County property tax statement. SPU contracts with the County to perform revenue processing services and related data administration. When property ownership changes, any delinquent drainage charges are paid in full, including interest charged at the rate of eight percent per year. Average collection levels are over 98 percent.

The City's drainage system serves approximately 185,000 accounts in a developed urban area; the system has experienced little change from year to year in the number of customers. The ratio of residential to commercial accounts has been approximately three to one. The following table shows charges billed to its ten largest customers.

### TEN LARGEST DRAINAGE CUSTOMERS AS PERCENTAGE OF TOTAL DRAINAGE REVENUES

<u>Customer Name</u>	<u>Acreage</u>	<u>2002 Charges Billed</u>	<u>Percent of Revenue</u>
Seattle Parks Department	4,449	\$ 717,030	3.2%
Port of Seattle	1,076	681,203	3.0
Seattle Public Schools	700	393,946	1.8
King County	713	376,946	1.7
University of Washington	638	281,642	1.3
Burlington Northern Railroad	422	268,030	1.2
Seattle Housing Authority	342	160,939	0.7
Union Pacific Railroad	145	108,348	0.5
United States Government	124	86,054	0.4
Seattle City Light	<u>211</u>	<u>83,969</u>	<u>0.4</u>
Total	8,820	\$ 3,157,633	14.0%
Total for Fund		\$22,480,601	100.0%

*Source: SPU billing records*

### Regulations

*Combined Sewer Overflows.* The 1972 Federal Clean Water Act requires municipalities to obtain National Pollutant Discharge Elimination System ("NPDES") permits for all combined sewer overflows. In Washington, these permits are issued by the Washington State Department of Ecology ("DOE").

The City has had its CSO locations permitted under the NPDES program since 1975, with the latest permit issued by DOE in 1998. State law requires municipalities to achieve "the greatest reasonable reduction of CSOs at the earliest possible date." In 1987, DOE defined "greatest reasonable reduction" to mean "control of each CSO such that an average of one untreated discharge may occur per year." The City expects to receive a new NPDES permit for CSO reduction by the end of 2002.

Since 1968, the City has been aggressively implementing a CSO control strategy that meets the objectives outlined in the federal CSO control policy and applicable State regulations (see "Capital Improvement Program"). Between 1968 and year-end 2001, the City spent approximately \$440 million (in 2001 dollars)

constructing CSO control facilities and implementing CSO reduction programs. The City currently expects to spend an additional \$80 million to \$100 million over the next 20 years for this program. Upon completion of the Lake Union/Denny Way CSO control project, a collaborative project with King County currently in progress, the City will have finished initial CSO reduction at all but five of its CSO locations. In accordance with the 1998 NPDES Permit, the City submitted a CSO Reduction Plan Amendment to DOE in December 2001. This 2001 Plan addresses CSO reduction at the five outstanding locations, as well as in six priority areas (covering 23 CSO basins) where post-construction monitoring has shown that there is still more than one overflow per year. The NPDES permit for CSO reduction which the City expects to receive by the end of 2002 will establish an enforceable schedule for the start and/or completion of certain projects identified within the Plan Amendment during the period covered by the new permit.

*Municipal Separated Storm Sewer System Discharges.* The 1987 amendments to the Clean Water Act extend NPDES permit requirements to stormwater discharges from separate storm sewers in municipalities, such as the City, with populations of 100,000 or more. In 1995, DOE granted the City coverage under the stormwater general permit for the Cedar/Green Water Quality Management Area, one of 23 management areas created by DOE. The City's coverage under this permit expired on July 5, 2000, but has been extended by operation of law until a new permit can be issued. DOE expects to issue a new permit in 2003. The City expects that the new permit will require it to continue its existing stormwater management programs such as public education, pollution prevention, maintenance, capital improvement, and toxic control programs, all of which are designed to reduce the discharge of pollutants and reduce impacts on receiving water bodies. Additional programmatic activities or increased levels of effort in existing programs will likely be required under the new permit. The City is currently reviewing a recently-issued update to the DOE Stormwater Management Manual, and will determine appropriate changes to programs, practices and its regulatory structure which are necessary to comply with the manual update.

*State Sediment Standards.* In 1991 the State adopted marine water sediment management standards, under which DOE may act to require the City to clean up sediments contaminated by CSOs and/or discharges from separate storm sewers. The full extent of sediment contamination related to City discharges, if any, and the nature and cost of compliance with DOE standards is not known at the present time. Some of the City's potential liability under the marine sediment management standards was addressed by the Elliott Bay Duwamish Waterway Restoration Program. See "Litigation and Claims" and "Capital Improvement Program—Habitat and Sediments Program."

## **Litigation and Claims**

In 1991 the City settled a lawsuit filed by the National Oceanic and Atmospheric Administration ("NOAA") alleging damages to natural resources from sediment contamination in Elliott Bay and the Lower Duwamish Waterway as a result of CSOs and storm water discharges from pipes owned and operated by the City. The City entered into a consent decree (the "Decree") that provides for services and cash payments in the aggregate amount of \$12,125,000 for sediment remediation, habitat restoration, real estate acquisition, reimbursement of NOAA costs, and source control. The Drainage and Wastewater Fund expensed the entire liability in 1991, and by the end of 2000, had paid \$8,903,000 in cash and services toward satisfaction of the requirements of the Decree. The remaining obligation of the Drainage and Wastewater Fund is \$1,022,000, of which \$1,000,000 is in the form of in-kind services for source control work.

Although the 1991 settlement with NOAA resolved the City's natural resource damage liability under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA" or "Superfund"), the City still may be liable for remediation of contaminated sediment sites that may be alleged to be associated with various City properties and operations, including historic stormwater and CSO discharges. In 2001, the Environmental Protection Agency ("EPA") listed the Lower Duwamish Waterway as a Superfund site. In anticipation of this listing, the City (through SPU and Seattle City Light), King County, the Port of Seattle, and the Boeing Company, entered into a voluntary administrative consent order with EPA and the DOE to perform a remedial investigation and feasibility study ("RI/FS") that may lead to future remedial actions. The Drainage and Wastewater Fund has recorded a \$1,138,000 environmental liability for actual and estimated costs associated with the RI/FS. It is likely that the City will be liable for a portion of the costs of subsequent remediation of the site; however, neither the magnitude of such remediation nor the specific liability of the Drainage and Wastewater Fund can be determined at this time.

In April 2002, DOE named the City as a “Potentially Liable Party” (“PLP”) at the Gas Works Park Sediments Site at North Lake Union. The City, through many affected departments including SPU, is voluntarily negotiating with DOE and other PLPs to undertake a RI/FS. The magnitude of any future remediation and the liability of the Drainage and Wastewater Fund cannot be determined at this time.

In addition, there are other sediment sites at which the Drainage and Wastewater Fund could be liable for a portion of the costs of investigation and cleanup. The magnitude of any such potential liability cannot be determined at this time.

Other claims associated with the normal operation of the Drainage and Wastewater System periodically are filed against the City. The Drainage and Wastewater Fund’s practice is to include in the annual budget an amount for such claims that is equal to the reasonably probable payment of claims for that year. For the purposes of financial reporting, annual claims costs are accrued based on actuarial studies of claims history.

### **Capital Improvement Program**

Each year, SPU prepares a six-year capital improvement program for the Drainage and Wastewater System (the “CIP”), of which the Plan of Additions is a part. In addition to identifying facilities in need of upgrading or rehabilitation, the CIP lays out a plan for constructing new facilities to address flooding and water quality problems. The CIP is approved by the Mayor and City Council and includes a financial plan for funding the planned improvements. The CIP funding requirements are based on an 100 percent accomplishment rate.

Projects identified in the CIP are based primarily on the Comprehensive Drainage Plan and the CSO Plan.

The City Council is expected to approve a CIP for 2003-2008 in November 2002. The proposed CIP currently under review by the City Council is approximately \$45 million smaller than the adopted 2002-2007 CIP, which totaled \$316 million. The tables included in this section as well as the projected operating results which follow later in this Official Statement assume the proposed CIP numbers for 2003-2007 and the adopted figure for 2002. The programmatic CIP descriptions note both the adopted (2002-2007) and proposed budget amounts.

**DRAINAGE AND WASTEWATER SYSTEM  
2002-2007 PROPOSED CAPITAL IMPROVEMENT PROGRAM  
(Amounts in Thousands)**

<b>Program Area</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>Total</b>
Drainage Improvement	\$ 25,423	\$ 23,147	\$ 17,225	\$ 16,382	\$ 18,433	\$ 21,024	\$ 121,634
CSO Program	5,065	7,671	6,866	5,597	5,218	6,450	36,867
Sewer Rehabilitation	14,264	9,982	11,204	10,676	10,734	11,075	67,935
General Wastewater	3,093	6,533	7,432	5,033	4,305	4,086	30,482
Habitat and Sediments	320	359	469	954	0	0	2,102
Technology	1,283	3,642	2,339	1,692	1,734	1,786	12,476
<b>Total</b>	<b>\$ 49,448</b>	<b>\$ 51,334</b>	<b>\$ 45,535</b>	<b>\$ 40,334</b>	<b>\$ 40,424</b>	<b>\$ 44,421</b>	<b>\$ 271,496</b>

<b>Funding Sources</b>							
2001 Bonds	\$ 41,681	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 41,681
2002 New Money Bonds	7,767	48,707	5,525	0	0	0	62,000
Future Bonds	0	0	35,398	32,267	32,165	35,537	135,368
Internally Generated Funds	0	2,627	4,611	8,067	8,259	8,884	32,448
<b>Total</b>	<b>\$ 49,448</b>	<b>\$ 51,334</b>	<b>\$ 45,535</b>	<b>\$ 40,334</b>	<b>\$ 40,424</b>	<b>\$ 44,421</b>	<b>\$ 271,496</b>

SPU expects to finance the CIP by a combination of bond proceeds and current revenues as follows:

**DRAINAGE AND WASTEWATER SYSTEM  
2002-2007 PROPOSED CAPITAL IMPROVEMENT PROGRAM  
PROJECTED SOURCES OF FUNDS  
(Amounts in Thousands)**

Bond Proceeds	\$ 239,048
Internally Generated Revenues	<u>32,448</u>
<b>Total</b>	<b><u>\$ 271,496</u></b>

*Drainage Improvements Program (\$170.0 million adopted, \$121.6 million proposed).* Trunk drainage infrastructure projects have historically dominated the drainage CIP. During the 2002-2007 projection period, increasing emphasis will be placed on projects addressing local drainage and water quality, urban creeks and lakes, and landslide drainage as trunk drainage projects are gradually concluded. Near term projects include localized collection systems to feed the trunk system, stormwater treatment, improvement of habitat along major Seattle creeks, and mitigation of landslide damage to SPU pipelines. The drainage improvements program also includes repair of existing infrastructure and projects to reduce sediment contamination in receiving waters.

In 2003, SPU will prepare an update of its Comprehensive Drainage Plan that will review City policies and regulations regarding flooding and water quality concerns, as well as SPU's water quality protection, habitat enhancement, stewardship, and education programs. See "Drainage Services." The update will identify new directions for an expanded role of the utility in local drainage needs, partnerships and regulatory compliance. Based on the outcome of this review, the update will propose a 20-year drainage CIP program that considers drainage and water quality needs, community priorities and available funding.

*CSO Program (\$36.8 million adopted, \$36.9 million proposed).* The 1980 Facilities Plan laid out a program for reducing CSOs discharging into Lake Washington, Longfellow Creek and Puget Sound. The 1988 CSO Plan outlines the City's strategy for dealing with the problem of CSOs discharging to Portage Bay, Lake Union, the Ship Canal, Elliott Bay, and the Duwamish Waterway. The 1988 CSO Plan, approved by DOE, the

Mayor and the City Council in 1988, outlines a 20-year program. A CSO reduction Plan Amendment submitted in December 2001 addressed CSO reduction at locations where monitored overflows exceed defined targets (see “Regulations—Combined Sewer Overflows”). CIP projects are based on the 1988 CSO Plan and on general projections of the implementation needs for the 2001 CSO Plan.

*Wastewater Rehabilitation Program (\$65.8 million adopted, \$68 million proposed).* This program includes major maintenance and repair of wastewater facilities. Specific projects and work activities to be included in the rehabilitation program are identified through the use of a video inspection program.

*General Wastewater (\$29.8 million adopted, \$30.5 million proposed).* The General Wastewater Program includes a lateral sewer backup prevention program and sewer system improvements.

*Habitat and Sediments Program (\$4.1 million adopted, \$2.1 million proposed).* This program addresses areas of contaminated sediments which may be associated with City-owned storm drain and CSO outfalls into the Duwamish Waterway and Elliott Bay. The program implements some of the habitat restoration efforts required pursuant to the NOAA natural resource damage consent decree, and is evaluating whether additional measures will be required, either as a result of the Endangered Species Act (“ESA”) listing of chinook salmon that migrate through the Duwamish Waterway as “threatened” or as a result of federal and State initiatives to require further sediment clean-up under CERCLA or the State’s Model Toxics Control Act. See “Litigation—Habitat and Sediments Program.”

*Technology Program (\$9.8 million adopted, \$12.5 million proposed).* Projects in this category, designed to increase efficiency and productivity, include a mobile/remote computing initiative for more efficient collection and distribution of maintenance and as-built data, and projects designed to automate engineering vault and real property records.

### **Endangered Species Act and Regional Needs Assessment**

On March 28, 1999, the National Marine Fisheries Service (“NMFS”) listed as “threatened with extinction” the Puget Sound chinook salmon, which migrate through waterways within and adjacent to the City. The full implications of this listing for the Drainage and Wastewater System are difficult to predict due to the many legal and scientific uncertainties associated with the application of the ESA to sewer and drainage activities.

While facility construction and maintenance activities already are under considerable environmental scrutiny, the addition of ESA review has added additional time to permit review, sometimes as much as a year. The extent to which additional costs will be incurred for mitigation specifically related to the ESA is unknown.

The City and SPU anticipate that additional funding will be needed to support habitat restoration programs that address salmon-related policy objectives. Funding for these programs is expected to come from a variety of sources, including City water, drainage and wastewater rates and general fund money, federal and state grants and taxes or fees imposed by other local jurisdictions.

### **Financial Policies**

Drainage and wastewater rates are set in accordance with financial policies identified by the Mayor and City Council. Specific targets associated with these financial policies and practices include generally positive net income, an ending cash balance equivalent to the average monthly cost of King County wastewater treatment and a minimum debt service coverage target of 1.50 times annual debt service. The Parity Bond debt service coverage requirement is 1.25 times annual debt service. Revenues to cover depreciation and City taxes are considered available for debt service coverage. Excess cash is, by policy, contributed to the CIP to reduce borrowing needs.

### **Financial Performance**

*Historical Operating Results.* The table titled “Historical Operating Results” shows historical revenues and expenses of the Drainage and Wastewater System for the years 1997 through 2001. During this period, the Drainage and Wastewater System’s financial performance was strong, with debt service coverage levels above the target requirements. From 1993 through 2001, the Drainage and Wastewater System reported positive net income in every year except 1999 and 2001. The loss incurred in 1999 was due to the transfer to the

Drainage and Wastewater Fund of accrued actuarial claims liability related to Drainage and Wastewater operations from the City fund in which this liability was recorded prior to 1999. The 2001 loss was primarily attributable to the transfer of contributed assets to the Ronald Wastewater District, at no cost. As of 2001, GASB 33 requires such transfers to flow through the income statement as an expense.

Payments to the County for wastewater treatment constitute an Operating and Maintenance Expense and must be paid prior to payment of the principal of or interest on any bonds secured by the revenues of the Drainage and Wastewater System. These payments accounted for approximately 59 percent of the Drainage and Wastewater System's total operating revenue in 2001.

*Projected Operating Results.* The table titled "Projected Operating Results" shows projected revenues and expenses of the Drainage and Wastewater System for the period 2002 through 2007. In 2002, net income is expected to be negative due to greater than expected declines in sewer revenue resulting from reduced water consumption during and after the 2001 drought. To manage the low revenues, SPU reduced operating and maintenance expenses, drew down cash reserves and financed more of the capital program with debt than originally planned. During the balance of the capital financing period (2003-2007), SPU projects that the Drainage and Wastewater System will achieve positive net income and meet debt service coverage requirements and achieve cash balance targets in all years except 2003. In 2003, SPU expects to rebuild cash reserves depleted by the decline in 2001-2002 revenues, to a level which substantially, but not fully, achieves its cash targets.

The Mayor has proposed a rate increase in 2003 of 6.5 percent for wastewater and 6.0 percent for drainage. Financial projections assume the proposed rate increases in 2003, as well as future increases to cover the costs of forecasted County rate increases for wastewater treatment, the capital program, cash target requirements, and annual inflationary increases in operating and maintenance expense (excluding wastewater treatment) of 3.2 percent in 2003, 2.9 percent in 2004 and 2.5 percent for the period 2005 to 2007.

Based on the County's latest Financial Plan, the County wastewater treatment rate is expected to increase by approximately 23 percent between 2005 and 2007, with no increase expected prior to 2005. These increases are included in the financial projections. Wastewater treatment costs are expected to be about 66 percent of wastewater revenues over the 2002-2007 period.

Capital financing assumptions used for these projections include an interest rate of 4.7 percent on the Bonds and the issuance of \$47.5 million in variable rate debt in 2004. Remaining bond issues are fixed rate bonds at a 5.5 percent interest rate.

Based on these assumptions, the following table shows projected Drainage and Wastewater rate increases through 2007.

IN THE PREPARATION OF THE PROJECTIONS IN THIS OFFICIAL STATEMENT, THE CITY HAS MADE CERTAIN ASSUMPTIONS WITH RESPECT TO CONDITIONS THAT MAY OCCUR IN THE FUTURE. WHILE THE CITY BELIEVES THAT, AS OF THE DATE OF THIS OFFICIAL STATEMENT, THESE ASSUMPTIONS ARE REASONABLE FOR THE PURPOSE OF THE PROJECTIONS, THEY DEPEND UPON FUTURE EVENTS, INCLUDING A WIDE VARIETY OF RISKS AND UNCERTAINTIES. ACTUAL CONDITIONS MAY DIFFER MATERIALLY FROM THOSE ASSUMED. THE CITY DOES NOT REPRESENT OR GUARANTEE THAT ACTUAL RESULTS WILL REPLICATE THE ESTIMATES IN THE VARIOUS TABLES SET FORTH IN THIS OFFICIAL STATEMENT. POTENTIAL PURCHASERS OF THE BONDS SHOULD NOT RELY ON THE PROJECTIONS IN THIS OFFICIAL STATEMENT AS STATEMENTS OF FACT. SUCH PROJECTIONS ARE SUBJECT TO CHANGE, AND WILL CHANGE, FROM TIME TO TIME. THE CITY HAS NOT COMMITTED ITSELF TO PROVIDE INVESTORS WITH UPDATED FORECASTS OR PROJECTIONS.

**PROJECTED AVERAGE RATE INCREASES\***  
(2003-2007)

<u>Year</u>	<u>Drainage</u>	<u>Wastewater</u>
2003	6.0%	6.5%
2004	14.0	7.5
2005	17.9	8.5
2006	13.2	3.7
2007	4.4	6.4

\* Projected average rate increases do not include any increases that may be a result of the Drainage Comprehensive Plan (see "Capital Improvement Program").

## HISTORICAL OPERATING RESULTS

	1997	1998	1999	2000	2001
<b>Operating Revenues</b>					
Wastewater Service	\$107,884,192	\$108,644,725	\$108,373,813	\$113,954,895	\$112,897,180
Drainage Service	10,913,446	11,452,354	16,607,349	16,085,024	22,480,601
Other Charges	566,140	609,370	671,009	776,686	860,415
<b>Total Operating Revenues</b>	<b>\$119,363,778</b>	<b>\$120,706,449</b>	<b>\$125,652,171</b>	<b>\$130,816,605</b>	<b>\$136,238,196</b>
<b>Operating Expenses</b>					
Operating and Maintenance Expenses					
Wastewater Treatment	\$77,157,809	\$77,132,056	\$76,946,502	\$78,282,898	\$80,389,233
Other Operating Expenses					
Resource Management <sup>(1)</sup>	2,431,328	2,670,972	3,728,196	4,367,635	5,050,474
Field Operations <sup>(2)</sup>	10,999,095	11,040,808	10,208,906	12,840,205	11,677,755
Customer Services <sup>(3)</sup>	3,642,087	3,768,706	3,444,012	4,058,191	4,215,839
General and Administrative	3,564,631	4,064,813	6,449,172	6,035,869	7,048,927
Engineering Services	0	0	1,530,527	1,918,637	1,977,246
Other	454,000	0	0	0	0
Taxes Other Than City Taxes	1,402,641	1,361,393	1,394,357	1,553,100	1,635,731
Other Expenses					
City Taxes	11,774,487	11,866,040	12,212,509	12,952,650	13,103,793
Depreciation	5,928,923	6,118,753	6,748,288	6,732,204	7,251,887
<b>Total Operating Expenses</b>	<b>\$117,355,001</b>	<b>\$118,023,541</b>	<b>\$122,662,469</b>	<b>\$128,741,389</b>	<b>\$132,350,885</b>
<b>Net Operating Income</b>	<b>\$2,008,777</b>	<b>\$2,682,908</b>	<b>\$2,989,702</b>	<b>\$2,075,216</b>	<b>\$3,887,311</b>
<b>Other Income (Expense)</b>					
Investment and Interest Income	\$2,237,959	\$1,835,086	\$1,580,671	\$2,943,716	\$2,734,567
Interest Expenses and Amortization of					
Debt Issue Costs and Net Discount	(2,424,655)	(3,300,710)	(3,119,059)	(4,932,099)	(5,524,996)
Other, Net <sup>(4)</sup>	2,407,085	793,455	(1,473,565)	883,708	(1,401,415)
<b>Total Other Income (Loss)</b>	<b>\$2,220,389</b>	<b>(\$672,169)</b>	<b>(\$3,011,953)</b>	<b>(\$1,104,675)</b>	<b>(\$4,191,844)</b>
Capital and Operating fees, Contributions, and Grants <sup>(5)</sup>	\$0	\$0	\$0	\$0	(\$1,893,728)
<b>Net Income (Loss)</b>	<b>\$4,229,166</b>	<b>\$2,010,739</b>	<b>(\$22,251)</b>	<b>\$970,541</b>	<b>(\$2,198,261)</b>
Accrued and Other Non-Cash Expenses	(\$283,483)	\$204,985	\$1,487,586	\$1,878,125	\$1,892,048
Operating Grants	176,780	187,948	338,400	49,879	\$177,581
<b>Revenue Available for Debt Service <sup>(6)</sup></b>	<b>21,843,443</b>	<b>22,895,720</b>	<b>25,357,156</b>	<b>26,631,790</b>	<b>29,047,187</b>
Debt Service	5,353,651	6,357,461	6,943,143	10,796,813	11,166,720
Debt Service Coverage	4.1	3.6	3.7	2.5	2.6
<b>Earnings Retained in the Utility:</b>					
Balance, beginning of year	\$10,026,797	\$14,225,963	\$16,266,703	\$16,244,451	\$17,214,992
Balance, end of year	\$14,225,963	\$16,266,703	\$16,244,451	\$17,214,992	\$15,016,731

- (1) Water Quality and Education Branch prior to 1999.
- (2) Maintenance and Operations and Regulations Branches prior to 1999.
- (3) Billing and Collecting Branch prior to 1999.
- (4) Operating Grants included in Other, Net through 2000. See Note 5 below.
- (5) Capital grants and the donor cost or fair value of contributed property and equipment was reported as contributions in aid of construction prior to implementation of GASB Statement No. 33. In 2001, capital fees, contributions and grants are accounted for in the statements of operations and changes in retained earnings as a result of the adoption of this statement. Prior to GASB 33, operating grants were reported as part of Other Income. As of 2001, operating grants are reported as part of Capital and Operating Fees, Contributions and Grants.
- (6) Revenue available for Debt Service = net operating income + city tax + depreciation + investment income + operating grants +/- other non-cash expense/income.

**PROJECTED OPERATING RESULTS**

	2002	2003	2004	2005	2006	2007
<b>Operating Revenue</b>						
Wastewater Service	\$ 119,100,679	\$ 130,891,647	\$ 138,745,145	\$ 149,777,695	\$ 154,473,361	\$ 163,478,049
Drainage Service	22,379,000	23,721,740	27,042,784	31,883,578	36,103,095	37,706,943
Other Charges	2,170,398	3,429,062	3,515,228	3,651,511	3,766,952	3,894,857
<b>Total Operating Revenue</b>	<b>\$ 143,650,078</b>	<b>\$ 158,042,448</b>	<b>\$ 169,303,157</b>	<b>\$ 185,312,785</b>	<b>\$ 194,343,408</b>	<b>\$ 205,079,849</b>
<b>Operating Expenses</b>						
Operating and Maintenance Expenses						
Wastewater Treatment	\$ 92,270,059	\$ 84,918,362	\$ 86,742,427	\$ 94,096,283	\$ 99,636,258	\$ 105,899,297
Other Operating Expenses <sup>(2)</sup>	30,021,602	35,561,149	37,710,725	39,185,976	40,169,251	41,006,154
Taxes Other Than City Taxes	1,765,570	1,925,155	2,068,282	2,272,513	2,392,526	2,524,215
Other Expenses						
City Taxes	14,086,312	15,376,630	16,482,133	18,057,279	18,949,354	20,001,927
Depreciation	7,376,650	8,061,135	8,948,473	9,800,797	10,556,319	11,274,543
<b>Total Operating Expenses</b>	<b>\$ 145,520,193</b>	<b>\$ 145,842,431</b>	<b>\$ 151,952,038</b>	<b>\$ 163,412,848</b>	<b>\$ 171,703,707</b>	<b>\$ 180,706,136</b>
<b>Net Operating Income</b>	<b>\$ (1,870,116)</b>	<b>\$ 12,200,017</b>	<b>\$ 17,351,118</b>	<b>\$ 21,899,936</b>	<b>\$ 22,639,701</b>	<b>\$ 24,373,713</b>
<b>Other Income (Expenses)</b>						
Investment and Interest Income	\$ 1,364,848	\$ 1,851,753	\$ 1,451,666	\$ 1,525,034	\$ 1,395,058	\$ 1,866,736
Interest Expenses and Amortization of Debt Issue Costs and Net Discount	(7,628,527)	(10,180,980)	(11,538,170)	(13,312,596)	(14,576,870)	(16,685,671)
Other Income, Net	2,883	184	184	184	184	184
<b>Total Other Income (Expenses)</b>	<b>\$ (6,260,795)</b>	<b>\$ (8,329,044)</b>	<b>\$ (10,086,320)</b>	<b>\$ (11,787,378)</b>	<b>\$ (13,181,628)</b>	<b>\$ (14,818,751)</b>
Capital and Operating fees, Contributions, and Grants	\$ 49,879	\$ 49,879	\$ 49,879	\$ 50,503	\$ 51,134	\$ 51,773
<b>Net Income (Loss)</b>	<b>\$ (8,130,911)</b>	<b>\$ 3,870,973</b>	<b>\$ 7,264,799</b>	<b>\$ 10,112,558</b>	<b>\$ 9,458,073</b>	<b>\$ 9,554,962</b>
Accrued and Other Non-Cash Expenses	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Operating Grants	49,879	49,879	49,879	50,503	51,134	51,773
<b>Revenue Available for Debt Service (3)</b>	<b>21,010,458</b>	<b>37,539,597</b>	<b>44,283,453</b>	<b>51,333,733</b>	<b>53,591,749</b>	<b>57,568,876</b>
Debt Service	\$ 13,825,199	\$ 15,273,139	\$ 18,658,258	\$ 20,440,084	\$ 24,263,754	\$ 25,739,593
Debt Service Coverage	1.52	2.46	2.37	2.51	2.21	2.24

(1) Projections assume 2002 adopted CIP and proposed CIP for 2003 through 2007. See "Capital Improvement Program."

(2) Includes Resource Management, Field Operations, Customer Services, General and Administrative, and Engineering Services.

(3) Revenue available for Debt Service = net operating income + city tax + depreciation + investment income + operating grants +/- other non-cash expense/income.

## THE CITY OF SEATTLE

The following provides general information about the City.

### Municipal Government

Incorporated in 1869, the City of Seattle, Washington, is the largest city in the Pacific Northwest and is the county seat of King County (the “County”). The City’s elected officials are a mayor, nine City Council members and a city attorney. These officials are elected at large to four-year terms. The City provides four utility services funded by rates and charges: electricity, water, drainage and wastewater, and solid waste.

### Financial Management

City financial management functions are provided by the Department of Finance. Dwight D. Dively is the Director of Finance. Mr. Dively is a graduate of Rose-Hulman Institute of Technology, holds a master’s degree from Princeton University in public affairs and is a Ph.C. in civil engineering at the University of Washington.

*Accounting.* The accounting and reporting policies of the City conform to generally accepted accounting principles for municipal governments and are regulated by the State Auditor’s Office, Division of Municipal Corporations, which maintains a resident staff at the City to perform a continual current audit as well as the annual post-fiscal year audit of City financial operations. The Department of Finance maintains general supervision over financial transactions of all City funds.

*Auditing.* The State Auditor is required to examine the affairs of all local governments at least once every three years; the City is audited annually. The examination must include, among other things, the financial condition and resources of the City, compliance with the laws and Constitution of the State, and the methods and accuracy of the accounts and reports of the City. Reports of the Auditor’s examinations are required to be filed in the office of the State Auditor and in the Department of Finance. The City’s Comprehensive Annual Financial Report may be obtained from the Department of Finance by calling (206) 684-8300.

*Municipal Budget.* City operations are guided by a budget prepared under the direction of the Mayor by the City Budget Office within the Department of Finance pursuant to State statute (Chapter 35.32A RCW). The proposed budget is submitted to the City Council by the Mayor each year not later than 90 days prior to the beginning of the next fiscal year. Currently the fiscal year of the City is from January 1 through December 31. The City Council considers the proposed budget, holds public hearings on its contents and may alter and revise the budget at its discretion, subject to the State requirement that budgeted revenues must at least equal expenditures. The City Council is required to adopt the budget at least 30 days before the beginning of the next fiscal year.

*Investments.* **The information in this section does not pertain to pension funds, which are administered by the Seattle City Employees’ Retirement System, and some debt issuance proceeds that are administered by trustee service providers.**

All cash-related transactions for the City, including its utilities, are administered by the Treasury Division of the Department of Finance. City cash is deposited into a single bank account and cash expenditures are paid from a consolidated disbursement account. Investments of temporarily idle cash may be made, according to existing City Council-approved policies, by the Treasury Division in the following securities:

- (i) U.S. Treasury and agency issues;
- (ii) bankers’ acceptances sold on the secondary market;
- (iii) repurchase and reverse repurchase agreements, when structured with securities eligible for purchase and when executed under an approved Master Repurchase Agreement with selected primary dealers; and
- (iv) commercial paper purchased in the secondary market which has received the highest ratings of at least two nationally recognized rating agencies.

State statutes, City ordinances and Department of Finance policies require the City to minimize market risks by safekeeping all purchased securities according to governmental standards for public institutions and by maintaining safety and liquidity above consideration for returns. Current City investment policies require periodic reporting about the City's investment portfolio to the Mayor and the City Council. The City's investment operations are reviewed by the City Auditor and by the State Examiner.

As of September 30, 2002, the combined investment portfolios of the City totaled \$890.2 million at book value. The City's cash pool is constituted solely of City funds. The City does not invest any of its funds in other pools, with the exception of tax collection receipts initially held by the County and funds of the Seattle City Employees' Retirement System and the Deferred Compensation Plan. The year-to-date yield on the City's consolidated pool of investments as of September 30, 2002, was 4.4 percent. As of September 30, 2002, the average maturity date of the portfolio was May 6, 2004. Approximately 33.6 percent, or \$298.7 million, was invested in securities with maturities of three months or less. The City held no securities with maturities longer than 15 years. Investments were allocated as follows:

U.S. Government and Agency securities	56.4%
Commercial paper	24.2
Federal Discount Notes	15.6
Certificates of Deposit	1.4
Federal Farm Credit Bank	1.1
Repurchase Agreements	1.1
Mortgage-backed Securities	0.2

*Interfund Loans.* City ordinances authorize the Director of Finance to approve interfund loans for a duration of up to 90 days and to establish a rate of interest on such loans. Extension or renewal of interfund loans requires City Council approval by ordinance. The Director of Finance also is authorized by City ordinance to make loans to individual funds participating in a common investment portfolio by carrying funds in a negative cash position for a period of up to 90 days, or for a longer period upon approval by ordinance, to the extent that such loans can be supported prudently by the common investment portfolio and the borrowing fund is reasonably expected to be able to repay the loan. Loans of this type bear interest at the common investment portfolio's rate of return.

### **Risk Management**

The City maintains \$25,000,000 liability insurance, with a \$2,500,000 self-insured retention for each occurrence. The City also maintains \$200,000,000 property insurance, with a \$100,000 deductible for each occurrence, on City-owned buildings with value greater than the deductible, unless insurance of at least equivalent value is provided by other parties. Hydroelectric projects owned by the City are not insured. Workers compensation is insured to statutory limits, with a \$500,000 self-insured retention for each occurrence. In addition, insurance policies are purchased to cover other property and casualty exposure.

### **Pension System**

Nearly all permanent non-uniformed City employees participate in the Seattle City Employees' Retirement System (the "Plan"), a single employer public employee retirement system. The payroll for City employees covered by the Plan for the year ended December 31, 2001, was \$405.0 million; total City payroll was \$619.5 million. Nearly all City employees are required to contribute 8.03 percent of their annual base salary to the Plan, and the City contributes an additional 8.03 percent. As of January 1, 2001, system assets exceeded the accrued actuarial liability. The actuarial present value of future benefits was \$1.988 billion, the actuarial present value of future normal costs for present members was \$497.8 million and the actuarial value of assets available for benefits was \$1.493 billion. Combined employee and employer contributions to the Plan totaled approximately \$69.3 million for the year ending December 31, 2001. Due to changes in interest rates, it is expected that a new actuarial study completed in 2002 will show a deficit.

### **Labor Relations**

The City has 34 separate departments and offices with approximately 13,000 regular and temporary employees. Thirty different unions and 45 bargaining units represent approximately 75 percent of the City's regular employees. The City's contract with the Seattle Police Officers Guild was ratified in July 2000 and

extends through the end of 2002. The contract with the Seattle Police Management Association (representing lieutenants and captains in the Police Department) expired at the end of 2001, and negotiations for a successor contract are continuing. The City has recently approved new three-year contracts with the coalition of City unions representing most non-uniformed City employees, and with IBEW Local 77, which represents electrical workers in the City Light and Transportation departments. The City also has recently concluded agreements with Firefighters Local 27 and Fire Chiefs Local 2898. These new contracts generally extend through 2004.

## **INITIATIVE AND REFERENDUM**

### **State**

Under the State Constitution, the voters of the State have the ability to initiate legislation and require the State Legislature to refer legislation to the voters through the powers of initiative and referendum, respectively. Initiatives and referenda are submitted to the voters upon receipt of a petition signed by at least eight percent (initiative) and four percent (referenda) of the number of voters registered and voting for the office of Governor at the preceding regular gubernatorial election. Any law approved in this manner by a majority of the voters may not be amended or repealed by the State Legislature within a period of two years following enactment, except by a vote of two-thirds of all the members elected to each house of the State Legislature. After two years, the law is subject to amendment or repeal by the State Legislature in the same manner as other laws. The initiative power may not be used to amend the State Constitution.

In recent years, a variety of State-wide initiatives have been placed on the ballot and approved by the voters. Certain of these initiatives purported to limit a broad array of taxes and fees, including utility fees, but the measures subsequently were held to be unconstitutional by the Washington Supreme Court. Certain other initiatives, affecting taxes but not utility fees, have been approved by the voters and become law.

Although several State initiatives and referenda were on the November 5, 2002 ballot, none affected the Department. Other tax or fee initiative measures may be filed in the future, but it cannot be predicted whether any such initiatives might gain sufficient signatures to qualify for submission to the State Legislature and/or the voters or, if submitted, whether they ultimately would be approved.

### **City**

Under the City Charter, Seattle voters may initiate local legislation and City Charter amendments and modify existing legislation through the powers of initiative and referendum. There are no pending City measures that affect the Department.

## **LEGAL AND TAX INFORMATION**

### **Litigation**

There is no litigation pending with process properly served on the City questioning the validity of the Bonds or the power and authority of the City to issue the Bonds.

### **Approval of Counsel**

Legal matters incident to the authorization, issuance and sale of the Bonds by the City are subject to the approving legal opinion of Foster Pepper & Shefelman PLLC, Bond Counsel. A form of the opinion of Bond Counsel with respect to the Bonds is attached hereto as Appendix B. Bond Counsel will be compensated only upon the issuance and sale of the Bonds.

### **Tax Exemption**

*Exclusion from Gross Income.* In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issue date of the Bonds, interest on the Bonds is excluded from gross

income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals.

*Continuing Requirements.* The City is required to comply with certain requirements of the Code after the date of issuance of the Bonds in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Bond proceeds and the facilities financed or refinanced with Bond proceeds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances, and the requirement to comply with the arbitrage rebate requirements to the extent applicable to the Bonds. The City has covenanted in the Ordinance to comply with those requirements, but if the City fails to comply with those requirements, interest on the Bonds could become taxable retroactive to the date of issuance of the Bonds.

*Corporate Alternative Minimum Tax.* While interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, under Section 55 of the Code, tax-exempt interest, including interest on the Bonds, received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations (as defined for federal income tax purposes). Under the Code, alternative minimum taxable income of a corporation will be increased by 75 percent of the excess of the corporation's adjusted current earnings (including any tax-exempt interest) over the corporation's alternative minimum taxable income determined without regard to such increase. A corporation's alternative minimum taxable income, so computed, that is in excess of an exemption of \$40,000, which exemption will be reduced (but not below zero) by 25 percent of the amount by which the corporation's alternative minimum taxable income exceeds \$150,000, is then subject to a 20 percent minimum tax.

For taxable years beginning after December 31, 1997, the corporate alternative minimum tax is repealed for a small business corporation that had average gross receipts of less than \$5 million for the three-year period beginning after December 31, 1994, and such a small business corporation will continue to be exempt from the corporate alternative minimum tax so long as its average gross receipts do not exceed \$7.5 million.

*Tax on Certain Passive Investment Income of S Corporations.* Under Section 1375 of the Code, certain excess net passive investment income, including interest on the Bonds, received by an S corporation (a corporation treated as a partnership for most federal tax purposes) that has Subchapter C earnings and profits at the close of the taxable year may be subject to federal income taxation at the highest rate applicable to corporations if more than 25 percent of the gross receipts of such S corporation is passive investment income.

*Foreign Branch Profits Tax.* Interest on the Bonds may be subject to the foreign branch profits tax imposed by Section 884 of the Code when the Bonds are owned by, and effectively connected with a trade or business of, a United States branch of a foreign corporation.

### **Certain Other Federal Tax Consequences**

*Bonds Not "Qualified Tax-Exempt Obligations" for Financial Institutions.* Section 265 of the Code provides that 100 percent of any interest expense incurred by banks and other financial institutions for interest allocable to tax-exempt obligations acquired after August 7, 1986, will be disallowed as a tax deduction. However, if the tax-exempt obligations are obligations other than private activity bonds, are issued by a governmental unit that, together with all entities subordinate to it, does not reasonably anticipate issuing more than \$10,000,000 of tax-exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) in the current calendar year, and are designated by the governmental unit as "qualified tax-exempt obligations," only 20 percent of any interest expense deduction allocable to those obligations will be disallowed.

The City is a governmental unit that, together with all subordinate entities, reasonably anticipates issuing more than \$10,000,000 of tax-exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) during the current calendar year and has not designated the Bonds as "qualified tax-exempt obligations" for purposes of the 80 percent financial institution interest expense deduction. Therefore, no interest expense of a financial institution allocable to the Bonds is deductible for federal income tax purposes.

*Reduction of Loss Reserve Deductions for Property and Casualty Insurance Companies.* Under Section 832 of the Code, interest on the Bonds received by property and casualty insurance companies will reduce tax deductions for loss reserves otherwise available to such companies by an amount equal to 15 percent of tax-exempt interest received during the taxable year.

*Effect on Certain Social Security and Retirement Benefits.* Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take receipts or accruals of interest on the Bonds into account in determining gross income.

*Other Possible Federal Tax Consequences.* Receipt of interest on the Bonds may have other federal tax consequences as to which prospective purchasers of the Bonds may wish to consult their own tax advisors.

*Original Issue Premium.* The Bonds maturing on July 1 in the years 2003 through 2021, inclusive, have been sold at prices reflecting original issue premium ("Premium Bonds"). An amount equal to the excess of the purchase price of a Premium Bond over its stated redemption price at maturity constitutes premium on such Premium Bond. A purchaser of a Premium Bond must amortize any premium over such Premium Bond's term using constant yield principles, based on the purchaser's yield to maturity. The amount of amortizable premium allocable to an interest accrual period for a Premium Bond will offset a like amount of qualified stated interest on such Premium Bond allocable to that accrual period, and may affect the calculation of alternative minimum tax liability described above. As premium is amortized, the purchaser's basis in such Premium Bond is reduced by a corresponding amount, resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed. Purchasers of Premium Bonds, whether at the time of initial issuance or subsequent thereto, should consult with their own tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to state and local tax consequences of owning such Premium Bonds.

*Original Issue Discount.* The Term Bonds maturing on July 1, 2032, have been sold at prices reflecting original issue discount ("Discount Bonds"). Under existing law, the original issue discount in the selling price of each Discount Bond, to the extent properly allocable to each owner of such Discount Bond, is excluded from gross income for federal income tax purposes with respect to such owner. The original issue discount is the excess of the stated redemption price at maturity of such Discount Bond over the initial offering price to the public, excluding underwriters and other intermediaries, at which price a substantial amount of the Discount Bonds of such maturity were sold.

Under Section 1288 of the Code, original issue discount on tax-exempt bonds accrues on a compound basis. The amount of original issue discount that accrues to an owner of a Discount Bond during any accrual period generally equals (i) the issue price of such Discount Bond plus the amount of original issue discount accrued in all prior accrual periods, multiplied by (ii) the yield to maturity of such Discount Bond (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period), less (iii) any interest payable on such Discount Bond during such accrual period. The amount of original issue discount so accrued in a particular accrual period will be considered to be received ratably on each day of the accrual period, will be excluded from gross income for federal income tax purposes, and will increase the owner's tax basis in such Discount Bond. Any gain realized by an owner from a sale, exchange, payment, or redemption of a Discount Bond will be treated as gain from the sale or exchange of such Discount Bond.

The portion of original issue discount that accrues in each year to an owner of a Discount Bond may result in certain collateral federal income tax consequences. The accrual of such portion of the original issue discount will be included in the calculation of alternative minimum tax liability as described above, and may result in an alternative minimum tax liability even though the owner of such Discount Bond will not receive a corresponding cash payment until a later year.

Owners who purchase Discount Bonds in the initial public offering but at a price different from the first offering price at which a substantial amount of those Discount Bonds were sold to the public, or who do not

purchase Discount Bonds in the initial public offering, should consult their own tax advisors with respect to the tax consequences of the ownership of such Discount Bonds. Owners of Discount Bonds who sell or otherwise dispose of such Discount Bonds prior to maturity should consult their own tax advisors with respect to the amount of original issue discount accrued over the period such Discount Bonds have been held and the amount of taxable gain or loss to be recognized upon that sale or other disposition of Discount Bonds. Owners of Discount Bonds also should consult their own tax advisors with respect to state and local tax consequences of owning such Discount Bonds.

### **Continuing Disclosure Undertaking**

*Basic Undertaking to Provide Annual Financial Information and Notice of Material Events.* To meet the requirements of paragraph (b)(5) of United States Securities and Exchange Commission (“SEC”) Rule 15c2-12 (the “Rule”), as applicable to the Underwriter for the Bonds, the City will undertake in the Resolution (the “Undertaking”) for the benefit of holders of the Bonds, as follows.

*Annual Financial Information.* The City agrees to provide or cause to be provided to each nationally recognized municipal securities information repository designated by the SEC in accordance with the Rule (“NRMSIR”) and to a state information depository, if one is established in the State of Washington and recognized by the SEC (the “SID”), annual financial information and operating data of the type included in this Official Statement with respect to the Drainage and Wastewater System as generally described below (“annual financial information”):

- (i) annual financial statements of the Drainage and Wastewater System, prepared in accordance with generally accepted accounting principles applicable to governmental units (except as otherwise noted therein), as such principles may be changed from time to time and as permitted by State law, which statements will not be audited, except that if and when audited financial statements are otherwise prepared and available to the City they will be provided;
- (ii) a statement of authorized, issued and outstanding bond debt secured by revenues of the Drainage and Wastewater System;
- (iii) debt service coverage ratios;
- (iv) general customer statistics, such as number and type of customers and revenues by customer class; and
- (v) current drainage rates and wastewater rates.

Annual financial information described above will be provided to each NRMSIR and the SID not later than the last day of the ninth month after the end of each fiscal year of the City, as such fiscal year may be changed as required or permitted by State law, commencing with the City’s current fiscal year ending December 31, 2001. In its provision of annual financial information, with respect to these obligations of the City, the City may cross-reference to any “final official statement” (as defined in the Rule) available from the Municipal Securities Rulemaking Board (the “MSRB”) or any other documents provided to each then existing NRMSIR and the SID.

The City has further agreed to provide or cause to be provided to each NRMSIR or to the MSRB, and to the SID, timely notice of a failure by the City to provide required annual financial information on or before the date specified above.

*Material Events.* The City further agrees to provide to each NRMSIR or the MSRB, and to the SID, timely notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;

- (vi) adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- (vii) modifications to rights of holders of the Bonds;
- (viii) Bond calls (other than scheduled mandatory redemption of Term Bonds);
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the Bonds; and
- (xi) rating changes.

For purposes of this section, “Continuing Disclosure Undertaking,” the term “holders of the Bonds” shall have the meaning intended for such term under the Rule.

*Amendment of Undertaking.* The Undertaking is subject to amendment after the primary offering of the Bonds without the consent of any holder of any Bond, or any broker, dealer, municipal securities dealer, participating underwriter, rating agency, NRMSIR, the SID, or the MSRB, under the circumstances and in the manner permitted by the Rule.

The City will give notice to each NRMSIR or the MSRB, and to the SID, of the substance (or provide a copy) of any amendment to the Undertaking and a brief statement of the reasons for the amendment. If the amendment changes the type of annual financial information to be provided, the annual financial information containing the amended operating data or financial information will include a narrative explanation of the effect of that change on the type of information to be provided.

*Termination of Undertaking.* The City’s obligations to provide annual financial information and notices of certain events will terminate upon the legal defeasance, prior redemption or payment in full of all of the then outstanding Bonds. In addition, the Undertaking, or any provision thereof, will be null and void if the City (i) obtains an opinion of nationally recognized bond counsel or other counsel familiar with the federal securities laws to the effect that those portions of the Rule which require the Undertaking, or any such provision, are invalid, have been repealed retroactively or otherwise do not apply to the Bonds; and (ii) so notifies the SID and either the MSRB or each then existing NRMSIR.

*Remedy for Failure to Comply with Undertaking.* If the City fails to comply with the Undertaking, the City will proceed with due diligence to cause such noncompliance to be corrected as soon as practicable after the City learns of that failure.

No failure by the City (or any other obligated person) to comply with the Undertaking will constitute a default in respect of the Bonds. The sole remedy of any holder of a Bond will be to take such actions as that holder deems necessary and appropriate to compel the City or other obligated person to comply with the Undertaking.

*Other Continuing Disclosure Undertakings of the City.* The City has entered into undertakings to provide annual information and the notice of the occurrence of certain events with respect to all bonds issued by the City on and after July 3, 1995, and subject to the Rule. The City is in compliance with all such undertakings.

## **OTHER BOND INFORMATION**

### **Bond Insurance**

*The following information and the municipal bond insurance policy specimen attached as Appendix G have been provided by Financial Guaranty Insurance Company. The City makes no representation as to the accuracy or completeness thereof. Purchasers of the Bonds should confirm the following with Financial Guaranty Insurance Company.*

Concurrently with the issuance of the Bonds, Financial Guaranty Insurance Company (“Financial Guaranty”) will issue its Municipal Bond New Issue Insurance Policy (the “Policy”) for the Bonds described in the Policy

(as used under the heading, the “Bonds”). The Policy unconditionally guarantees the payment of that portion of the principal or accreted value (if applicable) of and interest on the Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the issuer of the Bonds (in this section, the “Issuer”). Financial Guaranty will make such payments to State Street Bank and Trust Company, N.A., or its successor as its agent (the “Fiscal Agent”), on the later of the date on which such principal or accreted value (if applicable) and interest is due or on the business day next following the day on which Financial Guaranty shall have received telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from an owner of Bonds or the Bond Registrar of the nonpayment of such amount by the Issuer. The Fiscal Agent will disburse such amount due on any Bond to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner’s right to receive payment of the principal, accreted value or interest (as applicable) due for payment and evidence, including any appropriate instruments of assignment, that all of such owner’s rights to payment of such principal, accreted value or interest (as applicable) shall be vested in Financial Guaranty. The term “nonpayment” in respect of a Bond includes any payment of principal, accreted value or interest (as applicable) made to an owner of a Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

The Policy is non-cancellable and the premium will be fully paid at the time of delivery of the Bonds. The Policy covers failure to pay principal or accreted value (if applicable) of the Bonds on their respective stated maturity dates or dates on which the same shall have been duly called for mandatory sinking fund redemption, and not on any other date on which the Bonds may have been otherwise called for redemption, accelerated or advanced in maturity, and covers the failure to pay an installment of interest on the stated date for its payment.

Generally, in connection with its insurance of an issue of municipal securities, Financial Guaranty requires, among other things, (i) that it be granted the power to exercise any rights granted to the holders of such securities upon the occurrence of an event of default, without the consent of such holders, and that such holders may not exercise such rights without Financial Guaranty’s consent, in each case so long as Financial Guaranty has not failed to comply with its payment obligations under its insurance policy; and (ii) that any amendment or supplement to or other modification of the principal legal documents be subject to Financial Guaranty’s consent. The specific rights, if any, granted to Financial Guaranty in connection with its insurance of the Bonds are set forth in the description of the principal legal documents appearing elsewhere in this Official Statement. Reference should be made as well to such description for a discussion of the circumstances, if any, under which the Issuer is required to provide additional or substitute credit enhancement, and related matters.

This Official Statement contains a section regarding the ratings assigned to the Bonds and reference should be made to such section for a discussion of such ratings and the basis for their assignment to the Bonds. Reference should be made to the description of the Issuer for a discussion of the ratings, if any, assigned to such entity’s outstanding parity debt that is not secured by credit enhancement.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Guaranty is a wholly-owned subsidiary of FGIC Corporation (the “Corporation”), a Delaware holding company. The Corporation is a subsidiary of General Electric Capital Corporation (“GE Capital”). Neither the Corporation nor GE Capital is obligated to pay the debts of or the claims against Financial Guaranty. Financial Guaranty is a monoline financial guaranty insurer domiciled in the State of New York and subject to regulation by the State of New York Insurance Department. As of June 30, 2002, the total capital and surplus of Financial Guaranty was approximately \$1.01 billion. Financial Guaranty prepares financial statements on the basis of both statutory accounting principles and generally accepted accounting principles. Copies of such financial statements may be obtained by writing to Financial Guaranty at 125 Park Avenue, New York, New York 10017, Attention: Communications Department (telephone number: 212-312-3000) or to the New York State Insurance Department at 25 Beaver Street, New York, New York 10004-2319, Attention: Financial Condition Property/Casualty Bureau (telephone number: 212-480-5187).

## **Ratings**

The Bonds have been rated “Aaa” and “AAA” by Moody’s Investors Service and Standard & Poor’s Ratings Services, a Division of The McGraw Hill Companies, Inc., respectively, based upon the issuance of the Policy by Financial Guaranty simultaneously with the delivery of the Bonds. The corresponding underlying ratings are “Aa2” and “AA-.” The ratings reflect only the views of the rating agencies, and an explanation of the significance of the ratings may be obtained from each rating agency. No application was made to any other rating agency for the purpose of obtaining an additional rating on the Bonds. There is no assurance that the ratings will be retained for any given period of time or that the ratings will not be revised downward or withdrawn entirely by the rating agencies if, in their judgment, circumstances so warrant. Any such downward revision or withdrawal of the ratings will be likely to have an adverse effect on the market price of the Bonds.

## **Purchaser of the Bonds**

The Bonds are being purchased by Merrill Lynch (the “Purchaser”) at a price of \$80,331,740.88, plus accrued interest, and reoffered at a price of \$80,489,452.00, which reflects the prices or yields set forth on the cover of this Official Statement. The Purchaser may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the initial offering prices set forth on the cover hereof, and such initial offering prices may be changed from time to time by the Purchaser. After the initial public offering, the public offering prices may be varied from time to time.

## **Official Statement**

So far as any statements are made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, they are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized. Information concerning the City, SPU and the Drainage and Wastewater System contained in this Official Statement has been furnished by the City. Neither this Official Statement nor any statement which may have been made orally or in writing is to be construed as a contract with the owners of any of the Bonds.

The execution and delivery of this Official Statement have been duly authorized by the City.

The City of Seattle, Washington

By: \_\_\_\_\_  
Dwight D. Dively  
Director of Finance

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**APPENDIX A**  
**THE 2002 ORDINANCE**

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THE CITY OF SEATTLE, WASHINGTON

ORDINANCE 120965

AN ORDINANCE relating to the drainage and wastewater system of The City of Seattle, Washington; adopting a system or plan of additions and betterments to and extensions of the drainage and wastewater system; authorizing the issuance and sale of drainage and wastewater revenue bonds for the purposes of paying part of the cost of carrying out that system or plan, providing a reserve and paying the costs of issuing and selling the bonds authorized herein; providing for the terms, conditions, covenants and manner of sale of those bonds; describing the lien of those bonds and creating certain accounts of the City relating to those bonds.

Passed November 12, 2002

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THE CITY OF SEATTLE, WASHINGTON

ORDINANCE \_\_\_\_\_

AN ORDINANCE relating to the drainage and wastewater system of The City of Seattle, Washington; adopting a system or plan of additions and betterments to and extensions of the drainage and wastewater system; authorizing the issuance and sale of drainage and wastewater revenue bonds for the purposes of paying part of the cost of carrying out that system or plan, providing a reserve and paying the costs of issuing and selling the bonds authorized herein; providing for the terms, conditions, covenants and manner of sale of those bonds; describing the lien of those bonds and creating certain accounts of the City relating to those bonds.

WHEREAS, The City of Seattle, Washington (the "City") owns, maintains and operates a system of sanitary sewerage and storm and surface water drainage as part of Seattle Public Utilities (the "Drainage and Wastewater System"), which Drainage and Wastewater System has from time to time required various additions, improvements and extensions; and

WHEREAS, the City has need to acquire and construct certain additions and betterments to and extensions of the Drainage and Wastewater System adopted by this ordinance (the "Plan of Additions"); and

WHEREAS, the City has determined to issue drainage and wastewater revenue bonds to pay part of the cost of carrying out the Plan of Additions and to provide for a reserve for and pay the costs of issuing and selling those bonds; NOW, THEREFORE,

BE IT ORDAINED BY THE CITY OF SEATTLE, WASHINGTON, AS FOLLOWS:

**Section 1. Definitions**

**A. As used in this ordinance the words hereinafter defined shall have the meanings set forth in this section:**

"Accreted Value" means (a) with respect to any Capital Appreciation Bonds, as of the time of calculation, the sum of the amount set forth in the ordinance or Bond Resolution authorizing the Capital Appreciation Bonds as the amount representing the initial principal amount of such Capital Appreciation Bonds plus the interest accumulated, compounded and unpaid thereon as of the most recent compounding date, or (b) with respect to Original Issue Discount Bonds, as of the date of calculation, the amount representing the initial public offering price of such Original Issue Discount Bonds plus the amount of the discounted principal which has accreted since the date of issue; in each

case the Accreted Value shall be determined in accordance with the provisions of the ordinance or Bond Resolution authorizing the issuance of such bonds.

"Adjusted Gross Revenue" means, for any period, Gross Revenue plus withdrawals from the Rate Stabilization Account made during that period, and less deposits into the Rate Stabilization Account made during that period.

"Adjusted Net Revenue" means Adjusted Gross Revenue less Operating and Maintenance Expense.

"Alternate Security" means any insurance policy, collateral, security, letter of credit, standby bond purchase agreement, guaranty, surety bond, line of credit or similar credit enhancement device providing for or securing the payment of the principal of and interest on Parity Bonds, regarding the use of which the City receives (a) the approval of any Bond Insurer and (b) written confirmation from Moody's and S&P to the effect that the use of such Alternate Security will not cause a reduction in any then-existing ratings for any of the Parity Bonds.

"Annual Debt Service" means, in any calendar year, that year's total of principal and interest requirements for the then outstanding bonds (except the principal maturity of Term Bonds) to which the term Annual Debt Service refers, plus the principal of any bonds subject to a mandatory prior redemption or mandatory sinking fund payment for that year, less all capitalized interest payable that year from such bonds. For purposes of calculating Annual Debt Service for Capital Appreciation Bonds and Original Issue Discount Bonds, it shall be assumed that (a) in determining the Principal Amount due in each year, payment shall be assumed to be made on obligations in accordance with any amortization schedule established by the ordinance or Bond Resolution setting forth the terms of such obligations, including, as a principal amount, the Accreted Value of such obligations maturing or scheduled for redemption in such year; and (b) in determining the interest due in each year, interest payable at a fixed rate shall be assumed to be made at such fixed rate and on the required payment dates.

1 "Average Annual Debt Service" means, at the time of calculation, the sum of the Annual  
2 Debt Service remaining to be paid to the last scheduled maturity of the applicable issue or series of  
3 Parity Bonds divided by the number of years such bonds are scheduled to remain outstanding.

4 "Bond Account" means the "Drainage and Wastewater Revenue Bond Account, 1990,"  
5 created by Ordinance 115098 in the Drainage and Wastewater Fund for the purpose of paying and  
6 securing the principal of and interest on Parity Bonds.

7 "Bond Counsel" means a lawyer or firm of lawyers, selected by the City, of nationally  
8 recognized standing in matters pertaining to bonds issued by states and their political subdivisions.

9 "Bond Insurance Policy" means a municipal bond new issue insurance policy issued by the  
10 Bond Insurer and approved by the City Council by the Bond Resolution or by ordinance, and  
11 guaranteeing the timely payment of principal of and interest on any issue of Parity Bonds in  
12 accordance with the terms of that policy.

13 "Bond Insurer" means an insurance company or other financial institution that provides a  
14 Bond Insurance Policy.

15 "Bond Register" means the books or records maintained by the Bond Registrar for the  
16 purpose of registration of the Bonds.

17 "Bond Registrar" or "Registrar" means the fiscal agency of the State of Washington, or any  
18 successor bond registrar selected by the City, whose duties include the registration and authentication  
19 of the Bonds, maintenance of the Bond Register, effecting transfer of ownership of the Bonds, and  
20 paying the principal of and premium, if any, and interest on the Bonds.

21 "Bond Resolution" means the Bond Resolution or Bond Resolutions of the City Council  
22 fixing certain provisions of the Bonds and their sale as authorized by Section 4 of this ordinance.

23 "Bonds" means the bonds authorized to be issued pursuant to, under the authority and for the  
24 purposes provided in this ordinance.

25 "1992 Bonds" means the outstanding Drainage and Wastewater Utility Revenue Bonds,  
26 1992, of the City issued pursuant to Ordinance 116390.

1 "1995 Bonds" means the outstanding Drainage and Wastewater Utility Improvement and  
2 Refunding Revenue Bonds, 1995, of the City issued pursuant to Ordinance 117875.

3 "1998 Bonds" means the outstanding Drainage and Wastewater Revenue Bonds, 1998, of the  
4 City issued pursuant to Ordinance 118974.

5 "1999 Bonds" means the outstanding Drainage and Wastewater Revenue Bonds, 1999, of the  
6 City issued pursuant to Ordinance 199620.

7 "2001 Bonds" means the outstanding Drainage and Wastewater Revenue Bonds, 2001, of the  
8 City issued pursuant to Ordinance 120386.

9 "Capital Appreciation Bonds" means any revenue obligations of the Drainage and  
10 Wastewater System all or a portion of the interest on which is compounded and accumulated at the  
11 rates and on the dates set forth in the ordinance or Bond Resolution authorizing those obligations and  
12 is payable only upon redemption or on the maturity date of such obligations. Obligations which are  
13 issued as Capital Appreciation Bonds, but later convert to obligations on which interest is paid  
14 periodically, shall be Capital Appreciation Bonds until the conversion date and thereafter shall no  
15 longer be Capital Appreciation Bonds, but shall be treated as having a principal amount equal to their  
16 Accreted Value on the conversion date.

17 "CIP" means the portion or portions relating to the Drainage and Wastewater System of the  
18 "2001-2006 Capital Improvement Program" of the City as adopted by the City in Ordinance 120165,  
19 passed November 27, 2000, or the "2002-2007 Capital Improvement Program" of the City adopted  
20 by the City in Ordinance 120640, passed November 26, 2001, as the CIP may be amended, updated,  
21 supplemented or replaced from time to time by ordinance.

22 "City" means The City of Seattle, Washington, a municipal corporation duly organized and  
23 existing under the laws of the State.

24 "City Council" means the City Council of the City, as duly and regularly constituted from  
25 time to time.

26 "Code" means the Internal Revenue Code of 1986, or any successor thereto, as it has been  
and may be amended from time to time, and regulations thereunder.

1 "Construction Account" means the "Drainage and Wastewater Construction Account, 2002,"  
2 created in the Drainage and Wastewater Fund by this ordinance.

3 "Contract Resource Obligation" means an obligation of the City, designated as a Contract  
4 Resource Obligation and entered into pursuant to Section 26 of this ordinance.

5 "Coverage Requirement" means Net Revenue and money from any other lawful source at  
6 least equal to 1.25 times the Average Annual Debt Service. *Upon the redemption or defeasance of*  
7 *all of the then outstanding 1992 Bonds and 1995 Bonds, "Coverage Requirement" shall be defined*  
8 *as follows:*

9 "Coverage Requirement" means Adjusted Net Revenue at least equal to 1.25 times  
10 Average Annual Debt Service.

11 "DTC" means The Depository Trust Company, New York, New York, as initial Securities  
12 Depository for the Bonds.

13 "Drainage and Wastewater Fund" means the fund created by Ordinance 84390 and later  
14 renamed by Ordinance 114155 into which fund shall be paid all Gross Revenue except for earnings  
15 deposited into the Principal and Interest Subaccount of the Bond Account.

16 "Drainage and Wastewater System" means the drainage and wastewater system of the City,  
17 including the sanitary sewerage and storm drainage systems (except properties, interests, and rights  
18 under the jurisdiction of the City's Parks and Recreation Department, Seattle Center Department,  
19 Seattle Public Utilities Water System, City Light Department and Fleets and Facilities Department),  
20 as the same may be added to, improved and extended for as long as any Parity Bonds are  
21 outstanding. *Upon the redemption or defeasance of all of the then outstanding 1992 Bonds and*  
22 *1995 Bonds, "Drainage and Wastewater System" shall be defined as follows:*

23 "Drainage and Wastewater System" means the drainage and wastewater system of  
24 the City, including the sanitary sewerage and storm drainage systems (except properties,  
25 interests, and rights under the jurisdiction of the City's Parks and Recreation Department,  
26 Seattle Center Department, Seattle Public Utilities Water System, City Light Department and  
Fleets and Facilities Department) as it now exists, and all additions thereto and betterments

1 and extensions thereof at any time made for so long as any of the Parity Bonds are  
2 outstanding, together with any utility systems of the City hereinafter combined with the  
3 Drainage and Wastewater System, but not including any separate utility system that may be  
4 created, acquired or constructed by the City as provided in Section 25 of this ordinance.

5 "Director of Finance" means the Director of the Finance of the City, or any successor thereto.

6 "Future Parity Bonds" means any and all revenue bonds and obligations of the Drainage and  
7 Wastewater System issued after the date of the issuance of the Bonds the payment of the principal of  
8 and interest on which constitutes a lien and charge upon the Gross Revenue on a parity with the lien  
9 and charge upon such Gross Revenue for the Outstanding Parity Bonds and the Bonds.

10 "Government Obligations" means direct obligations of, or obligations the principal of and  
11 interest on which are unconditionally guaranteed by, the United States Government.

12 "Gross Revenue of the Drainage and Wastewater System" or "Gross Revenue" means all the  
13 earnings and revenue received by the Drainage and Wastewater System from any source whatsoever,  
14 except general ad valorem taxes, special assessments, grants from the State, federal or local  
15 governments, earnings in any refunded bond escrow account or fund or other trust fund, gifts to the  
16 Drainage and Wastewater System for capital purposes, proceeds from the sale of City or Drainage  
17 and Wastewater System property, proceeds of City or Drainage and Wastewater System obligations,  
18 earnings in any bond or other obligation redemption fund except for those earnings that are paid into  
19 the Principal and Interest Subaccount or such other account used to pay debt service on obligations  
20 of the Drainage and Wastewater System, and earnings set aside to pay excess earnings rebates to the  
21 United States of America under Section 148 of the 1986 Code.

22 "Independent Consulting Engineer" means the independent person(s) or firm(s) selected by  
23 the City having a favorable reputation for skill and experience with drainage and wastewater systems  
24 of comparable size and character to the Drainage and Wastewater System in such areas as and  
25 relevant to the purposes for which they were retained.

26 "Letter of Representations" means the Letter of Representations relating to the Bonds to be  
delivered by the City to DTC.

1 "Maximum Annual Debt Service" means, at the time of calculation, the maximum amount of  
2 Annual Debt Service which shall become due in the current calendar year or in any future calendar  
3 year on any outstanding Parity Bonds.

4 "Moody's" means Moody's Investors Service, Inc.

5 "Net Revenue of the Drainage and Wastewater System" or "Net Revenue" means the Gross  
6 Revenue less Operating and Maintenance Expense paid from Gross Revenue.

7 "Operating and Maintenance Expense" means all reasonable expenses incurred by the City in  
8 causing the Drainage and Wastewater System to be operated and maintained in good repair, working  
9 order and condition, including without limitation payments (other than payments out of proceeds of  
10 Parity Bonds or other obligations not issued to pay current expenses of the Drainage and Wastewater  
11 System) into reasonable reserves for items of operating or maintenance expense the payment of  
12 which is not immediately required, payments of premiums for insurance, if any, on the Drainage and  
13 Wastewater System, and any State-imposed taxes, and also including all payments made to another  
14 municipal corporation or other agency for treatment or disposal of sewage, but excluding  
15 depreciation and amortization, and any City taxes imposed or levied on the Drainage and Wastewater  
16 System or Gross Revenue or payments in lieu of taxes payable from the Gross Revenue of the  
17 Drainage and Wastewater System, and payments of claims or judgments. Accounting for those  
18 expenses shall be in accordance with generally accepted accounting principles. *Upon the redemption  
19 or defeasance of all of the then outstanding 1992 Bonds and 1995 Bonds, Operating and  
20 Maintenance Expense also shall include amounts due under any Contract Resource Obligation  
21 under the conditions described in Section 26 of this ordinance.*

22 "Original Issue Discount Bonds" means revenue obligations of the Drainage and Wastewater  
23 System which are sold at an initial public offering price of less than ninety-five percent (95%) of  
24 their face value and which are specifically designated as Original Issue Discount Bonds by the  
25 ordinance or Bond Resolution under which such obligations are issued.

26 "Outstanding Parity Bonds" means the outstanding and nondefeased 1992 Bonds, 1995  
Bonds, 1998 Bonds, 1999 Bonds and 2001 Bonds.

1 "Parity Bond Ordinance" means any ordinance or Bond Resolution passed or adopted by the  
2 City Council providing for the issuance of Parity Bonds, and any other ordinance or Bond Resolution  
3 amending or supplementing the provisions of any Parity Bond Ordinance as originally passed or  
4 adopted or as theretofore amended or supplemented.

5 "Parity Bonds" means the Outstanding Parity Bonds, the Bonds and any outstanding Future  
6 Parity Bonds.

7 "Permitted Investments" means any legal investment permitted for money of the City.

8 "Plan of Additions" means the CIP, as it may be modified hereafter as described herein.

9 "Principal Amount" means, at the time of calculation, (a) with respect to any Capital  
10 Appreciation Bond, the Accreted Value thereof (the difference between the stated amount to be paid  
11 at maturity and the Accreted Value being deemed unearned interest), and (b) with respect to any  
12 Original Issue Discount Bond, the Accreted Value thereof, unless the ordinance or Bond Resolution  
13 under which such obligation was issued shall specify a different amount, in which case, the terms of  
14 the ordinance or Bond Resolution shall control.

15 "Principal and Interest Subaccount" means the subaccount of that name created in the Bond  
16 Account by Ordinance 115098 for the payment of the principal of and interest on Parity Bonds.

17 "Qualified Insurance" means any municipal bond insurance policy or surety bond issued by  
18 any insurance company licensed to conduct an insurance business in any state of the United States  
19 (or by a service corporation acting on behalf of one or more such insurance companies) which  
20 insurance company or companies, as of the time of issuance of such policy or surety bond, are rated in  
21 one of the two highest rating categories by Moody's and S&P or their comparably recognized business  
22 successors.

23 "Rate Stabilization Account" means the account of that name previously established by  
24 Section 26 of Ordinance 118974.

25 "Rating Agencies" means Moody's and S&P, and their successors and any other nationally-  
26 recognized securities rating agency or agencies rating Parity Bonds at the request of the City.

1 "RBI" means *The Bond Buyer* Revenue Bond Index or comparable index, or, if no  
2 comparable index can be obtained, eighty percent (80%) of the interest rate for actively traded thirty  
3 (30) year United States Treasury obligations.

4 "Refunding Parity Bonds" means Parity Bonds issued for the purpose of refunding bonds of  
5 any prior series of Parity Bonds.

6 "Registered Owner" means the person shown on the Bond Register as the owner of one or  
7 more Bonds.

8 "Reserve Requirement" means, for Parity Bonds, an amount equal to the least of the  
9 Maximum Annual Debt Service at the time of calculation, 1.25 times Average Annual Debt Service  
10 at the time of calculation or ten percent (10%) of the proceeds of Parity Bonds at the time of the  
11 dates of their respective issuances and payments therefor by the initial purchasers. The Reserve  
12 Requirement may be satisfied to the extent of the amount payable under an Alternate Security which  
13 contains a contract to provide money to pay debt service on Parity Bonds. The Reserve Requirement  
14 shall be provided by cash, Permitted Investments or Alternate Security or any combination thereof,  
15 and shall be subject to the provisions of Section 14(d) of this ordinance. For any issue of Parity  
16 Bonds, the Reserve Requirement may be provided within five (5) years after the issuance of such  
17 Parity Bonds in accordance with Section 17 of this ordinance.

18 "Reserve Subaccount" means the subaccount of that name created in the Bond Account by  
19 Ordinance 115098 for the purpose of securing the payment of the principal of and interest on Parity  
20 Bonds.

21 "Securities Depository" means any one of the following registered securities depositories  
22 which has been designated by the City: (i) DTC; (ii) Midwest Securities Trust Company, Chicago,  
23 Illinois; (iii) Philadelphia Depository Trust Company, Philadelphia, Pennsylvania; or (iv) such other  
24 securities depositories as the City may designate in a certificate of the City delivered to the Bond  
25 Registrar.

26 "S&P" means Standard and Poor's Ratings Services, a Division of the McGraw-Hill  
Companies, Inc.

1 "State" means the State of Washington.

2 "Term Bonds" means any Parity Bonds of any single issue or series designated as Term  
3 Bonds in the ordinance (or Bond Resolution adopted pursuant to that ordinance) authorizing the  
4 issuance of such bonds.

5 "ULID Assessments" means all assessments levied and collected in a utility local  
6 improvement district of the City created for the acquisition or construction of additions to and  
7 betterments and extensions of the Drainage and Wastewater System if (and only if) those  
8 assessments are pledged to be paid into the Bond Account. ULID Assessments shall not include any  
9 prepaid assessments paid into a construction fund or account. ULID Assessments shall include  
10 installments thereof and any interest or penalties thereon.

11 "Undertaking" means the City's undertaking in the Bond Resolution to provide certain  
12 continuing disclosure as provided by Section 18 of this ordinance.

13 **B. The following definitions shall be substituted for and/or be added to the**  
14 **definitions in Section 1(A) or become applicable to all Parity Bonds upon the redemption or**  
15 **defeasance of all 1992 Bonds:**

16 "Annual Debt Service" for any calendar year means the sum of the amounts required in such  
17 calendar year to pay:

- 18 (a) the interest due in such calendar year on all Parity Bonds outstanding,  
19 excluding interest to be paid from the proceeds of the sale of Parity Bonds or other bonds; and  
20 (b) the principal of all outstanding Serial Bonds due in such calendar year; and  
21 (c) the Sinking Fund Requirement, if any, for such calendar year.

22 For purposes of this definition, the principal and interest portions of the Accreted Value of  
23 Capital Appreciation Bonds becoming due at maturity or by virtue of a Sinking Fund Requirement  
24 shall be included in the calculations of accrued and unpaid and accruing interest or principal in such  
25 manner and during such period of time as is specified in any Parity Bond Ordinance authorizing such  
26 Capital Appreciation Bonds.

1 For purposes of calculating and determining compliance with the Reserve Requirement and  
2 conditions for the issuance of Future Parity Bonds and/or entering into Parity Payment Agreements  
3 the following shall apply:

4 1. Generally. Except as otherwise provided by subparagraph 2 with respect to Variable  
5 Interest Rate Bonds and by subparagraph 3 below with respect to Parity Bonds with respect to which  
6 a Payment Agreement is in force, interest on any issue of Parity Bonds shall be calculated based on  
7 the actual amount of accrued, accreted or otherwise accumulated interest that is payable in respect of  
8 that issue taken as a whole, at the rate or rates set forth in the applicable Parity Bond Ordinance.

9 2. Interest on Variable Interest Rate Bonds. The amount of interest deemed to be  
10 payable on any issue of Variable Interest Rate Bonds shall be calculated on the assumption that the  
11 interest rate on those bonds would be equal to the rate that is ninety percent (90%) of the average  
12 RBI during the four calendar quarters preceding the quarter in which the calculation is made.

13 3. Interest on Parity Bonds With Respect to Which a Payment Agreement is in Force.  
14 Debt service on Parity Bonds with respect to which a Payment Agreement is in force shall be based  
15 on the net economic effect on the City expected to be produced by the terms of the Parity Bonds and  
16 the terms of the Payment Agreement, including but not limited to the effects produced by the  
17 following: (a) Parity Bonds that would, but for a Payment Agreement, be treated as obligations  
18 bearing interest at a Variable Interest Rate instead shall be treated as obligations bearing interest at a  
19 fixed interest rate, and (b) Parity Bonds that would, but for a Payment Agreement, be treated as  
20 obligations bearing interest at a fixed interest rate instead shall be treated as obligations bearing  
21 interest at a Variable Interest Rate. Accordingly, the amount of interest deemed to be payable on any  
22 Parity Bonds with respect to which a Payment Agreement is in force shall be an amount equal to the  
23 amount of interest that would be payable at the rate or rates stated in those Parity Bonds plus  
24 Payment Agreement Payments minus Payment Agreement Receipts. For the purposes of calculating  
25 as nearly as practicable Payment Agreement Receipts and Payment Agreement Payments under a  
26 Payment Agreement that includes a variable rate component determined by reference to a pricing  
mechanism or index that is not the same as the pricing mechanism or index used to determine the

1 variable rate interest component on the Parity Bonds to which the Payment Agreement is related, it  
2 shall be assumed that the fixed rate used in calculating Payment Agreement Payments will be equal  
3 to 105% of the fixed rate specified by the Payment Agreement and that the pricing mechanism or  
4 index specified by the Payment Agreement is the same as the pricing mechanism or index specified  
5 by the Parity Bonds. Notwithstanding the other provisions of this subparagraph 3, the City shall not  
6 be required to (but may in its discretion) take into account in determining Annual Debt Service the  
7 effects of any Payment Agreement that has a term of ten (10) years or less.

8 4. Parity Payment Agreements. No additional debt service shall be taken into account  
9 with respect to a Parity Payment Agreement for any period during which Payment Agreement  
10 Payments on that Parity Payment Agreement are taken into account in determining Annual Debt  
11 Service on related Parity Bonds under subparagraph 3 of this definition. However, for any period  
12 during which Payment Agreement Payments are not taken into account in calculating Annual Debt  
13 Service on any outstanding Parity Bonds because the Parity Payment Agreement is not then related to  
14 any outstanding Parity Bonds, payments on that Parity Payment Agreement shall be taken into  
15 account by assuming:

16 (A) City Obligated to Make Payments Based on Fixed Rate. If the City is  
17 obligated to make Payment Agreement Payments based on a fixed rate and the Qualified  
18 Counterparty is obligated to make payments based on a variable rate index, that payments by the City  
19 will be based on the assumed fixed payor rate, and that payments by the Qualified Counterparty will  
20 be based on a rate equal to the average rate determined by the variable rate index specified by the  
21 Parity Payment Agreement during the four calendar quarters preceding the quarter in which the  
22 calculation is made, and

23 (B) City Obligated to Make Payments Based on Variable Rate Index. If the City is  
24 obligated to make Payment Agreement Payments based on a variable rate index and the Qualified  
25 Counterparty is obligated to make payment based on a fixed rate, that payments by the City will be  
26 based on a rate equal to the average rate determined by the variable rate index specified by the Parity  
Payment Agreement during the four calendar quarters preceding the quarter in which the calculation

1 is made, and that the Qualified Counterparty will make payments based on the fixed rate specified by  
2 the Parity Payment Agreement.

3 "Gross Revenue" means (a) all income, revenues, receipts and profits derived by the City  
4 through the ownership and operation of the Drainage and Wastewater System; (b) the proceeds  
5 received by the City directly or indirectly from the sale, lease or other disposition of any of the  
6 properties, rights or facilities of the Drainage and Wastewater System; (c) Payment Agreement  
7 Receipts, to the extent that such receipts are not offset by Payment Agreement Payments; and (d) the  
8 investment income earned on money held in any fund or account of the City, including any bond  
9 redemption funds and the accounts therein, in connection with the ownership and operation of the  
10 Drainage and Wastewater System. Gross Revenue does not include: (a) insurance proceeds  
11 compensating the City for the loss of a capital asset; (b) income derived from investments  
12 irrevocably pledged to the payment of any defeased bonds payable from Gross Revenue;  
13 (c) investment income set aside for or earned on money in any fund or account created or maintained  
14 solely for the purpose of complying with the arbitrage rebate provisions of the Code; (d) any gifts,  
15 grants, donations or other funds received by the City from any State or federal agency or other person  
16 if such gifts, grants, donations or other funds are the subject of any limitation or reservation imposed  
17 by the donor or grantor or imposed by law or administrative regulation to which the donor or grantor  
18 is subject, limiting the application of such funds in a manner inconsistent with the application of  
19 Gross Revenue hereunder; (e) the proceeds of any borrowing for capital improvements (or the  
20 refinancing thereof); (f) the proceeds of any liability or other insurance (excluding business  
21 interruption insurance or other insurance of like nature insuring against the loss of revenues); and (g)  
22 general ad valorem taxes, excise taxes and special assessments, including interest and penalties  
23 thereon. *Upon the redemption or defeasance of all of the then outstanding 1992 Bonds and 1995*  
24 *Bonds, Gross Revenue also shall not include earnings of any separate utility system that may be*  
25 *created, acquired, or constructed by the City pursuant to Section 25 of this ordinance.*

26 "Parity Payment Agreement" means a Payment Agreement under which the City's  
obligations are expressly stated to constitute a charge and lien on the Net Revenue of the Drainage

1 and Wastewater System equal in rank with the charge and lien upon such Net Revenue required to be  
2 paid into the Bond Account to pay and secure the payment of the principal of and interest on Parity  
3 Bonds.

4 "Payment Agreement" means a written contract entered into, for the purpose of managing or  
5 reducing the City's exposure to fluctuations or levels of interest rates or for other interest rate,  
6 investment, asset or liability management purposes, by the City and a Qualified Counterparty on  
7 either a current or forward basis as authorized by any applicable laws of the State in connection with,  
8 or incidental to, the issuance, incurring or carrying of particular bonds, notes, bond anticipation  
9 notes, commercial paper or other obligations for borrowed money, or lease, installment purchase or  
10 other similar financing agreements or certificates of participation therein, that provides for an  
11 exchange of payments based on interest rates, ceilings or floors on such payments, options on such  
12 payments, or any combination thereof or any similar device.

13 "Payment Agreement Payments" means the amounts, periodically required to be paid by the  
14 City to the Qualified Counterparty pursuant to a Payment Agreement.

15 "Payment Agreement Receipts" means the amounts periodically required to be paid by the  
16 Qualified Counterparty to the City pursuant to a Payment Agreement.

17 "Qualified Counterparty" means a party (other than the City or a person related to the City)  
18 who is the other party to a Payment Agreement and who is qualified to act as the other party to a  
19 Payment Agreement under any applicable laws of the State.

20 "Serial Bonds" means Parity Bonds maturing in specified years, for which no Sinking Fund  
21 Requirements are mandated.

22 "Sinking Fund Account" means any account created in the Parity Bond Account to amortize  
23 the principal or make mandatory redemptions of Term Bonds.

24 "Sinking Fund Requirement" means, for any calendar year, the principal amount and  
25 premium, if any, of Term Bonds required to be purchased, redeemed, paid at maturity or paid into  
26 any Sinking Fund Account for such calendar year as established by the Parity Bond Ordinance  
authorizing the issuance of such Term Bonds.

1 "Variable Interest Rate" means any variable interest rate or rates to be borne by any Parity  
2 Bonds. The method of computing such a variable interest rate shall be as specified in the Parity  
3 Bond Ordinance authorizing or specifying the terms of such Parity Bonds, which Parity Bond  
4 Ordinance also shall specify either (1) the particular period or periods of time or manner of  
5 determining such period or periods of time for which each value of such variable interest rate shall  
6 remain in effect or (2) the time or times upon which any change in such variable interest rate shall  
7 become effective.

8 "Variable Interest Rate Bonds" means, for any period of time, any Parity Bonds that bear a  
9 Variable Interest Rate during that period, except that Parity Bonds shall not be treated as Variable  
10 Interest Rate Bonds if the net economic effect of interest rates on particular Parity Bonds of an issue  
11 and interest rates on other Parity Bonds of the same issue, as set forth in the applicable Parity Bond  
12 Ordinance, or the net economic effect of a Payment Agreement with respect to particular Parity  
13 Bonds, in either case is to produce obligations that bear interest at a fixed interest rate; and Parity  
14 Bonds with respect to which a Payment Agreement is in force shall be treated as Variable Interest  
15 Rate Bonds if the net economic effect of the Payment Agreement is to produce obligations that bear  
16 interest at a Variable Interest Rate.

17 **Section 2. Adoption of Plan of Additions.** The CIP constitutes a system or plan of  
18 additions and betterments to and extensions of the Drainage and Wastewater System (the "Plan of  
19 Additions"). To the extent not previously specified, adopted and ordered to be carried out by  
20 ordinance of the City, the City specifies, adopts and orders to be carried out the Plan of Additions as  
21 generally provided for in the CIP. The estimated cost of the Plan of Additions, as nearly as may be  
22 determined, is declared to be Three Hundred Six Million Three Hundred Forty-Eight Thousand  
23 Dollars (\$306,348,000), of which approximately Sixty-Nine Million Dollars (\$69,000,000) is  
24 expected to be financed from the proceeds of the Bonds.

25 The Plan of Additions shall include any amendments, updates, supplements or replacements  
26 to the CIP determined by ordinance to constitute a system or plan of additions to or betterments or  
extensions of the Drainage and Wastewater System, all of which automatically shall constitute

1 amendments to the Plan of Additions. The Plan of Additions also may be modified, without  
2 amending the CIP, to include other improvements if the City determines by ordinance that those  
3 amendments or other improvements constitute a system or plan of additions to or betterments or  
4 extensions of the Drainage and Wastewater System.

5 The Plan of Additions includes the purchase and installation of all materials, supplies,  
6 appliances, equipment and facilities, the acquisition of all permits, franchises, property and property  
7 rights, other capital assets and all engineering, consulting and other professional services and studies  
8 (whether performed by the City or by other public or private entities) necessary or convenient to  
9 carry out the Plan of Additions.

10 **Section 3. Authorization and Description of Bonds.** For the purpose of providing all or  
11 part of the funds with which to (i) pay part of the cost of carrying out the Plan of Additions, (ii)  
12 provide for the Reserve Requirement, and (iii) pay the costs of issuing and selling the Bonds, the  
13 City shall issue and sell the Bonds in the aggregate principal amount of not to exceed Sixty-Nine  
14 Million (\$69,000,000). The Bonds may be issued in one or more series no later than December 31,  
15 2003; may be combined with other Parity Bonds authorized separately; shall be called "The City of  
16 Seattle, Washington, Drainage and Wastewater Revenue Bonds, 2002" (unless changed by the Bond  
17 Resolution); may have such different or further designation or designations as determined by the  
18 Bond Resolution or the Director of Finance; shall be dated and shall mature on such date or dates  
19 specified in the Bond Resolution, except that the final maturity date of the Bonds shall not extend  
20 beyond December 31, 2032; shall be issued in fully registered form; shall be numbered separately in  
21 the manner and with any additional designation as the Bond Registrar for the Bonds deems necessary  
22 for purposes of identification; shall bear interest at the rate or rates (computed on the basis of a 360-  
23 day year of twelve 30-day months) specified in the Bond Resolution, except that the net interest cost  
24 shall not exceed a weighted average rate of 8.0% per annum, payable at the times specified in the  
25 Bond Resolution; and shall have such denominations, mature on such dates and be subject to  
26 optional or mandatory redemption, open market purchase or defeasance on the terms and at the times

1 specified in the Bond Resolution. The Director of Finance may designate Term Bonds with  
2 mandatory redemption amounts, all to be provided by the Bond Resolution.

3 **Section 4. Bond Resolution.** The City Council may adopt the Bond Resolution and may  
4 provide therein for the matters described in this ordinance, including the manner of sale of the  
5 Bonds, and such other matters that the City Council deems necessary and appropriate to carry out the  
6 purposes of this ordinance. Once adopted, the Bond Resolution shall be deemed a part of this  
7 ordinance as if set forth herein.

8 The Bond Resolution may provide for Qualified Insurance or Alternate Security, and  
9 conditions or covenants relating thereto, including additional terms, conditions and covenants  
10 relating to the Bonds that are required by the provider of Qualified Insurance or Alternate Security  
11 and are consistent with the provisions of this ordinance, including but not limited to restrictions on  
12 investments and requirements of notice to and consent of the provider of Qualified Insurance or  
13 Alternate Security.

14 The Bond Resolution may approve and authorize the execution and delivery on behalf of the  
15 City of any contracts consistent with the provisions of this ordinance for which the City's approval is  
16 necessary or to which the City is a party and that are related or incidental to the initial issuance and  
17 sale of the Bonds, the initial establishment of the interest rate or rates on the Bonds, any redemption  
18 of the Bonds, or provision of Qualified Insurance or Alternate Security.

19 The City Council may determine in the Bond Resolution the amount, if any, from the  
20 proceeds of or accrued interest on the Bonds to be deposited into specified funds, subfunds, accounts  
21 and subaccounts. In the absence of such a determination in the Bond Resolution, the Director of  
22 Finance may make such determination.

23 **Section 5. Registration and Transfer or Exchange of Bonds.** The Bonds shall be issued  
24 only in registered form as to both principal and interest and recorded on the Bond Register. The  
25 Bond Register shall contain the name and mailing address of the Registered Owner of each Bond and  
26 the principal amount and number of each of the Bonds held by each Registered Owner.

1 Bonds surrendered to the Bond Registrar may be exchanged for Bonds in any authorized  
2 denomination of an equal aggregate principal amount and of the same series, interest rate and  
3 maturity. Bonds may be transferred only if endorsed in the manner provided thereon and surrendered  
4 to the Bond Registrar. Any exchange or transfer shall be without cost to the Registered Owner or  
5 transferee. The Bond Registrar shall not be obligated to exchange or transfer any Bond during the  
6 period between a record date and the next succeeding principal or interest payment or redemption  
7 date.

8 The City appoints DTC as initial Securities Depository for the Bonds. For so long as DTC is  
9 the Securities Depository for the Bonds, DTC shall be deemed to be the Registered Owner of the  
10 Bonds for all purposes hereunder, and all references in this ordinance or the Bond Resolution to the  
11 Registered Owners of the Bonds shall mean DTC or its nominee and shall not mean the owners of  
12 any beneficial interests in the Bonds. Payments of principal of and interest on all outstanding Bonds  
13 registered in the name of the nominee of DTC, or its registered assign, shall be made as provided in  
14 the Letter of Representations.

15 Bonds executed and delivered in fully immobilized form shall be executed and delivered in  
16 the form of one fully-registered immobilized certificate for each series and maturity of the Bonds  
17 representing the aggregate principal amount of the Bonds of that series and maturity, which Bonds  
18 shall (except as provided below for the discontinuation or substitution of Securities Depository) be  
19 registered in the name of the Securities Depository or its nominee. For so long as DTC serves as  
20 Securities Depository for the Bonds, the Bonds shall be registered in the name of Cede & Co., as  
21 nominee of DTC; however, if DTC shall request that the Bonds be registered in the name of a  
22 different nominee, the Bond Registrar shall exchange all or any portion of the Bonds for an equal  
23 aggregate principal amount of Bonds registered in the name of such other nominee or nominees of  
24 DTC. No person other than DTC or its nominee shall be entitled to receive from the City or the  
25 Bond Registrar any Bond or any other evidence of ownership of the Bonds, or any right to receive  
26 any payment in respect thereof, unless DTC or its nominee shall transfer record ownership of all or

1 any portion of the Bonds on the Bond Register, in connection with discontinuing the book entry  
2 system as provided below or otherwise.

3 So long as the Bonds are registered in the name of DTC or any nominee thereof, all payments  
4 of the principal of, premium, if any, or interest on the Bonds shall be made to DTC or its nominee in  
5 immediately available funds on the dates provided for such payments under this ordinance and the  
6 Bond Resolution and at such times and in the manner provided in the Letter of Representations.  
7 Each such payment to DTC or its nominee shall be valid and effective to fully discharge all liability  
8 of the City or the Bond Registrar with respect to the principal of, premium, if any, or interest on the  
9 Bonds to the extent of the sum or sums so paid. In the event of the redemption of less than all of the  
10 Bonds of any series and maturity, the Bond Registrar shall not require surrender by DTC or its  
11 nominee of the Bonds so redeemed, and DTC or its nominee may retain such Bonds and make an  
12 appropriate notation thereon as to the amount of such partial redemption. DTC shall deliver to the  
13 Bond Registrar, upon request, a written confirmation of such partial redemption. The records  
14 maintained by the Bond Registrar shall be conclusive as to the amount of the Bonds of such series  
15 and maturity that have been redeemed.

16 All transfers of beneficial ownership interests in Bonds registered in the name of DTC or its  
17 nominee shall be effected by the procedures of DTC's participants and/or indirect participants for  
18 recording and transferring the ownership of beneficial interests in bonds.

19 The City and the Bond Registrar may treat DTC, or any nominees thereof, as the sole and  
20 exclusive Registered Owner of the Bonds registered in such name for the purposes of payment of the  
21 principal of, premium, if any, or interest on the Bonds, selecting Bonds or portions thereof to be  
22 redeemed, giving any notice permitted or required to be given to Registered Owners of Bonds under  
23 this ordinance or the Bond Resolution, registering the transfer of Bonds, obtaining any consent or  
24 other action to be taken by Registered Owners of Bonds and for all other purposes whatsoever; and  
25 the City and the Bond Registrar shall not be affected by any notice to the contrary. The City and the  
26 Bond Registrar shall not have any responsibility or obligation to any direct or indirect DTC  
participant, any person claiming a beneficial ownership interest in the Bonds under or through DTC

1 or any such direct or indirect participant, or any other person which is not shown on the Bond  
2 Register as being a Registered Owner of Bonds, with respect to: (1) the Bonds; (2) any records  
3 maintained by DTC or any such direct or indirect participant; (3) the payment by DTC or any such  
4 direct or indirect participant of any principal of, premium, if any, or interest on the Bonds; (4) any  
5 notice which is permitted or required to be given to Registered Owners of Bonds under this  
6 ordinance or the Bond Resolution; (5) the selection by DTC or any such direct or indirect participant  
7 of any person to receive payment in the event of a partial redemption of the Bonds; or (6) any  
8 consent given or other action taken by DTC as Registered Owner of the Bonds.

9 So long as the Bonds are registered in the name of DTC or any nominee thereof, all notices  
10 required or permitted to be given to the Registered Owners of such Bonds under this ordinance or the  
11 Bond Resolution shall be given to DTC as provided in the Letter of Representations, in form and  
12 content satisfactory to DTC, the City and the Bond Registrar.

13 In connection with any notice or other communication to be provided to Registered Owners  
14 pursuant to this ordinance or the Bond Resolution by the City or the Bond Registrar with respect to  
15 any consent or other action to be taken by Registered Owners of the Bonds, DTC shall consider the  
16 date of receipt of notice requesting such consent or other action as the record date for such consent or  
17 other action; however, the City or the Bond Registrar may establish a special record date for such  
18 consent or other action and shall give DTC notice of such special record date not less than fifteen  
19 (15) calendar days in advance of such special record date to the extent possible.

20 Any successor Bond Registrar, in its written acceptance of its duties under this ordinance and  
21 the Bond Resolution, shall agree to take any actions necessary from time to time to comply with the  
22 requirements of the Letter of Representations.

23 The book-entry system for registration of the ownership of the Bonds in fully immobilized  
24 form may be discontinued at any time if: (1) after notice to the City and the Bond Registrar, DTC  
25 determines to resign as Securities Depository for the Bonds; or (2) after notice to DTC and the Bond  
26 Registrar, the City determines that a continuation of the system of book-entry transfers through DTC  
(or through a successor Securities Depository) is not in the best interests of the City. In each of such

1 events (unless, in the case described in clause (1) above, the City appoints a successor Securities  
2 Depository), the Bonds shall be delivered in registered certificate form to such persons, and in such  
3 maturities and principal amounts, as may be designated by DTC, but without any liability on the part  
4 of the City or the Bond Registrar for the accuracy of such designation. Whenever DTC requests the  
5 City and the Bond Registrar to do so, or whenever the City requests DTC and the Bond Registrar to  
6 do so after the determination by the City to replace DTC with a successor Securities Depository, the  
7 City and the Bond Registrar shall cooperate with DTC in taking appropriate action after reasonable  
8 notice to arrange for another Securities Depository to maintain custody of certificates evidencing the  
9 Bonds.

10 **Section 6. Mutilated, Lost, Stolen and Destroyed Bonds.** In case any Bonds issued  
11 hereunder shall become mutilated or be destroyed, stolen or lost, the City may, if not then prohibited  
12 or otherwise required by law, cause to be executed and delivered a new Bond of like amount, series,  
13 interest rate, maturity date and tenor in exchange and substitution for and upon cancellation of such  
14 mutilated Bonds, or in lieu of and in substitution for such destroyed, stolen or lost Bonds, upon  
15 payment by the Registered Owner thereof of the reasonable expenses and charges of the City and the  
16 Bond Registrar in connection therewith, and in the case of a Bond destroyed, stolen or lost, the filing  
17 with the Bond Registrar of evidence satisfactory to the City that such Bond was destroyed, stolen or  
18 lost, and of the ownership thereof, and furnishing the City and the Bond Registrar with indemnity  
19 satisfactory to each of them. If the mutilated, destroyed, stolen or lost Bond already has matured or  
20 been called for redemption in accordance with its terms it shall not be necessary to issue a new Bond  
21 prior to payment.

22 **Section 7. Payment of Bond Principal and Interest.** Principal of, premium, if any, on and  
23 interest on the Bonds shall be payable in lawful money of the United States of America. Interest on  
24 the Bonds shall be paid by checks or drafts mailed by the Bond Registrar on the interest payment  
25 date to the Registered Owners at the addresses appearing on the Bond Register on the fifteenth day of  
26 the month preceding the interest payment date (or other record date established in the Bond  
Resolution, the "Record Date") or, at the request of the Registered Owner of One Million Dollars

1 (\$1,000,000) or more in aggregate principal amount of Bonds, by wire transfer to an account in the  
2 United States designated in writing by such Registered Owner prior to the Record Date. Principal of  
3 and premium, if any, on the Bonds shall be payable upon presentation and surrender of the Bonds by  
4 the Registered Owners at either of the principal corporate trust office or offices of the Bond Registrar  
5 at the option of the Registered Owners. Notwithstanding the foregoing, payment of any Bonds  
6 registered in the name of DTC or its nominee, shall be made in accordance with the Letter of  
7 Representations.

8 The Bonds shall be payable solely out of the Bond Account and shall not be general  
9 obligations of the City.

10 **Section 8. Redemption and Open Market Purchase of Bonds.**

11 **(a) Optional Redemption.** All or some of the Bonds may be subject to redemption at  
12 the option of the City at the times and on the terms set forth in the Bond Resolution.

13 **(b) Mandatory Redemption.** The City shall redeem any Term Bonds, if not redeemed  
14 under the optional redemption provisions set forth in the Bond Resolution or purchased in the open  
15 market under the provisions set forth below, by lot (or in such other manner as the Bond Registrar  
16 shall determine) at par plus accrued interest on the dates and in the years and principal amounts as set  
17 forth in the Bond Resolution.

18 If the City redeems Term Bonds under the optional redemption provisions set forth in the  
19 Bond Resolution or purchases Term Bonds in the open market as set forth below, the Term Bonds so  
20 redeemed or purchased (irrespective of their redemption or purchase price) shall be credited at the  
21 par amount thereof against the remaining mandatory redemption requirements in a manner to be  
22 determined by the Director of Finance or, if no such determination is made, on a pro-rata basis.

23 **(c) Partial Redemption.** Whenever less than all of the Bonds of a single maturity are to  
24 be redeemed, the Bond Registrar shall select the Bonds or portions thereof to be redeemed from the  
25 Bonds of that maturity by lot, or in such other manner as the Bond Registrar shall determine, except  
26 that, so long as the Bonds are registered in the name of DTC or its nominee, DTC shall select the

1 Bonds or portions thereof to be redeemed in accordance with the Letter of Representations. In no  
2 event shall any Bond be outstanding in a principal amount that is not an authorized denomination.

3 Portions of the principal amount of any Bond, in integral multiples of Five Thousand Dollars  
4 (\$5,000), may be redeemed unless otherwise provided in the Bond Resolution. If less than all of the  
5 principal amount of any Bond is redeemed, upon surrender of that Bond at either of the principal  
6 offices of the Bond Registrar, there shall be issued to the Registered Owner, without charge therefor,  
7 a new Bond (or Bonds, at the option of the Registered Owner) of the same series, maturity and  
8 interest rate in any of the denominations authorized by the Bond Resolution in the aggregate total  
9 principal amount remaining unredeemed.

10 (d) **Open Market Purchase.** The City reserves the right and option to purchase any or  
11 all of the Bonds in the open market at any time at any price acceptable to the City plus accrued  
12 interest to the date of purchase. The principal amount of Term Bonds purchased pursuant to this  
13 Section 8 shall be credited at the par amount thereof against the next mandatory redemption  
14 requirement that is at least sixty (60) days after the date of purchase, or as otherwise directed by the  
15 Director of Finance.

16 (e) **Bonds to be Canceled.** All Bonds purchased or redeemed under this Section 8 shall  
17 be canceled.

18 **Section 9. Notice of Redemption.** The City shall cause notice of any intended redemption  
19 of Bonds to be given not less than thirty (30) nor more than sixty (60) days prior to the date fixed for  
20 redemption by first-class mail, postage prepaid, to the Registered Owner of any Bond to be redeemed  
21 at the address appearing on the Bond Register at the time the Bond Registrar prepares the notice, and  
22 the requirements of this sentence shall be deemed to have been fulfilled when notice has been mailed  
23 as so provided, whether or not it is actually received by the Registered Owner of any Bond. Interest  
24 on Bonds called for redemption shall cease to accrue on the date fixed for redemption unless the  
25 Bond or Bonds called are not redeemed when presented pursuant to the call. In addition, the  
26 redemption notice shall be mailed by the Bond Registrar within the same period, postage prepaid, to  
Moody's Investors Service, Inc., and Standard and Poor's Ratings Services, a Division of the

1 McGraw-Hill Companies, Inc., at their offices in New York, New York, or their successors, to any  
2 provider of Qualified Insurance or Alternate Security for the Bonds, and to such other persons and  
3 with such additional information as the Director of Finance shall determine or as specified in the  
4 Bond Resolution, but none of these additional mailings shall be a condition precedent to the  
5 redemption of Bonds.

6 **Section 10. Failure to Redeem Bonds.** If any Bond is not redeemed when properly  
7 presented at its maturity or call date, the City shall be obligated to pay interest on that Bond at the  
8 same rate provided in the Bond from and after its maturity or call date until that Bond, principal,  
9 premium, if any, and interest, is paid in full or until sufficient money for its payment in full is on  
10 deposit in the Bond Account and the Bond has been called for payment by giving notice of that call  
11 to the Registered Owner of each of those unpaid Bonds.

12 **Section 11. Form and Execution of Bonds.** The Bonds shall be typed, photocopied,  
13 printed or lithographed on good bond paper in a form consistent with the provisions of this  
14 ordinance, the Bond Resolution and State law, shall be signed by the Mayor and Director of Finance,  
15 either or both of whose signatures may be manual or in facsimile, and the seal of the City or a  
16 facsimile reproduction thereof shall be impressed or printed thereon.

17 Only Bonds bearing a Certificate of Authentication in substantially the following form,  
18 manually signed by the Bond Registrar, shall be valid or obligatory for any purpose or entitled to the  
19 benefits of this ordinance:

20 CERTIFICATE OF AUTHENTICATION

21 This Bond is one of the fully registered The City of Seattle,  
22 Washington, Drainage and Wastewater Revenue Bonds, 200[2/3], described in  
23 the Bond Ordinance.

24 Bond Registrar

25 By \_\_\_\_\_  
26 Authorized Signer

1 The authorized signing of a Certificate of Authentication shall be conclusive evidence that the Bond  
2 so authenticated has been duly executed, authenticated and delivered and is entitled to the benefits of  
3 this ordinance.

4 If any officer whose facsimile signature appears on the Bonds ceases to be an officer of the  
5 City authorized to sign bonds before the Bonds bearing his or her facsimile signature are  
6 authenticated or delivered by the Bond Registrar or issued by the City, those Bonds nevertheless may  
7 be authenticated, delivered and issued and, when authenticated, issued and delivered, shall be as  
8 binding on the City as though that person had continued to be an officer of the City authorized to  
9 sign bonds. Any Bond also may be signed on behalf of the City by any person who, on the actual  
10 date of signing of the Bond, is an officer of the City authorized to sign bonds, although he or she did  
11 not hold the required office on the date of issuance of the Bonds.

12 **Section 12. Bond Registrar.** The Bond Registrar shall keep, or cause to be kept, at its  
13 principal corporate trust office, sufficient books for the registration and transfer of the Bonds which  
14 shall be open to inspection by the City at all times. The Bond Registrar is authorized, on behalf of  
15 the City, to authenticate and deliver Bonds transferred or exchanged in accordance with the  
16 provisions of the Bonds and this ordinance, to serve as the City's paying agent for the Bonds and to  
17 carry out all of the Bond Registrar's powers and duties under this ordinance and SMC Chapter 5.10  
18 establishing a system of registration for the City's bonds and obligations, as that chapter now exists  
19 or may be amended.

20 The City reserves the right in its discretion to appoint special paying agents, registrars or  
21 trustees in connection with the payment of some or all of the principal of or interest on the Bonds. If  
22 a new Bond Registrar is appointed by the City, notice of the name and address of the new Bond  
23 Registrar shall be mailed to the Registered Owners of the Bonds. The notice may be mailed together  
24 with the next interest payment due on the Bonds, but, to the extent practicable, shall be mailed not  
25 less than fifteen (15) days prior to a maturity date of the principal of any Bond.

26 The Bond Registrar shall be responsible for its representations contained in the Bond  
Registrar's Certificate of Authentication on the Bonds. The Bond Registrar may become the Registered

1 Owner of Bonds with the same rights it would have if it were not the Bond Registrar and, to the extent  
2 permitted by law, may act as depository for and permit any of its officers or directors to act as members  
3 of, or in any other capacity with respect to, any committee formed to protect the rights of the Registered  
4 Owners of the Bonds.

5 **Section 13. Finding of Sufficiency of Revenues.** The City Council finds and determines  
6 that the issuance and sale of the Bonds is in the best interest of the City and in the public interest. In  
7 making such finding and determination, and in maintaining the Bond Account, the City Council has  
8 had due regard to the cost of operation and maintenance of the Drainage and Wastewater System and  
9 to any portion of the Gross Revenues pledged for the payment of any bonds, warrants or other  
10 indebtedness. The Gross Revenues, at the rates established from time to time consistent with Section  
11 15(a) of this ordinance, will be sufficient, in the judgment of the City Council, to meet all expenses  
12 of operation and maintenance of the Drainage and Wastewater System and to provide the amounts  
13 previously pledged for the payment of all outstanding obligations payable out of the Gross Revenue  
14 and pledged herein for the payment of the Bonds.

15 **Section 14 . Security for Parity Bonds; Flow of Funds.**

16 (a) **Pledge; Lien and Charge of Parity Bonds.** The Net Revenue is pledged for the  
17 payment of the Parity Bonds. This pledge shall constitute a lien and charge upon such Net Revenue  
18 prior and superior to any other liens and charges whatsoever. *Upon the redemption or defeasance of*  
19 *all outstanding 1992 Bonds and 1995 Bonds, all ULID Assessments shall be pledged to the payment*  
20 *of the Parity Bonds.*

21 (b) **Priority Expenditure of Gross Revenue.** So long as any Parity Bonds are  
22 outstanding, all Gross Revenue, except for earnings on investments in the Bond Account or other  
23 bond redemption fund, arbitrage rebate account, refunding escrow account or other trust account,  
24 unless those earnings are transferred from those accounts or funds to the Drainage and Wastewater  
25 Fund, shall be deposited as received in the Drainage and Wastewater Fund and shall be used, paid  
26 out and distributed in the following order of priority (by paragraphs):

1 (i) To pay, together with any other money made available for such purpose, the  
2 Operating and Maintenance Expense;

3 (ii) To make the required payments into the Principal and Interest Subaccount for  
4 all Parity Bonds;

5 (iv) To make the required payments into the Reserve Subaccount for all Parity  
6 Bonds;

7 (v) To make all required payments into any revenue bond redemption fund  
8 created to pay and secure the payment of the principal of and interest on any revenue bonds  
9 or short-term obligations of the City having a lien and charge upon the Net Revenue of the  
10 Drainage and Wastewater System subordinate to the lien thereon for the payment of the  
11 principal of and interest on Parity Bonds; and

12 (vi) To redeem and retire any sewer revenue bonds of the City then outstanding or  
13 to purchase any or all of those bonds in the open market at a price not in excess of the price at  
14 which those bonds could be redeemed at the next call date; to make necessary additions,  
15 betterments, repairs, extensions and replacements of the Drainage and Wastewater System or  
16 other purposes proper to its maintenance and operation, including the payment of any City  
17 taxes or payments in lieu of taxes payable from Gross Revenue of the Drainage and  
18 Wastewater System, or for any other lawful Drainage and Wastewater System purpose,  
19 including, upon the redemption or defeasance of all then outstanding 1992 Bonds and 1995  
20 Bonds, to make deposits to the Rate Stabilization Account.

21 The City may transfer from any funds or accounts of the City legally available therefor,  
22 except bond redemption funds, any money therein to meet the required payments to be made into the  
23 Bond Account.

24 (c) **Bond Account; Deposit of Net Revenue.** The Bond Account has been created in the  
25 Drainage and Wastewater Fund as a special fund of the City, which account is divided into two  
26 subaccounts, a Principal and Interest Subaccount and a Reserve Subaccount. So long as any Parity  
Bonds are outstanding against the Bond Account, the City obligates and binds itself to set aside and

1 pay into the Bond Account from the Drainage and Wastewater Fund out of the Net Revenue certain  
2 fixed amounts without regard to any fixed proportion, namely:

3 (i) Into the Principal and Interest Subaccount, on or before each interest or principal and  
4 interest payment date, money which, together with the money already deposited in that  
5 account, is sufficient to pay the interest or principal and interest (as the case may be) due that  
6 date (including any mandatory redemption, mandatory sinking fund or optional redemption  
7 payments) on the Parity Bonds; and

8 (ii) Into the Reserve Subaccount an amount necessary to provide for the Reserve  
9 Requirement for the Parity Bonds within the time and in the manner required by this  
10 ordinance. The amount necessary to satisfy the Reserve Requirement upon the issuance of  
11 the Bonds may be funded (i) on the date of issue of the Bonds, by a deposit from the proceeds  
12 of the Bonds or by an Alternate Security or (ii) in annual installments from Net Revenue so  
13 that the Reserve Requirement is fully funded by the fifth anniversary of the date of issue of  
14 the Bonds. The manner of funding the Reserve Requirement for the Bonds shall be specified  
15 in the Bond Resolution.

16 *Upon the redemption or defeasance of all then outstanding 1992 Bonds and 1995 Bonds, the*  
17 *City shall pay into the Bond Account all ULID Assessments on their collection.*

18 (d) **Reserve Subaccount.** The City covenants and agrees that it will at all times maintain  
19 in the Reserve Subaccount an amount equal to the Reserve Requirement for all Parity Bonds, except  
20 for withdrawals therefrom as authorized herein, until there is a sufficient amount in the Principal and  
21 Interest Subaccount and Reserve Subaccount to pay the principal of and interest on all outstanding  
22 Parity Bonds, at which time the money in the Reserve Subaccount may be used to pay any such  
23 principal and interest so long as the money remaining on deposit in the Reserve Subaccount is no  
24 less than the Reserve Requirement of the remaining outstanding Parity Bonds.

25 If there shall be a deficiency in the Principal and Interest Subaccount to meet maturing  
26 installments of either principal of or interest on any of the Parity Bonds, such deficiency shall be  
made up from the Reserve Subaccount by the withdrawal of cash therefrom. Any deficiency created

1 in the Reserve Subaccount by reason of any such withdrawal will then be made up from the Net  
2 Revenue of the Drainage and Wastewater System which shall be first available after making  
3 necessary provisions for the required payments into the Principal and Interest Subaccount.

4 (e) **Investment of Money in Bond Account.** All money in the Bond Account may be  
5 kept in cash or invested in Permitted Investments maturing not later than the date when needed (for  
6 investments in the Principal and Interest Subaccount) or the last maturity of any outstanding Parity  
7 Bonds (for investments in the Reserve Subaccount). In no event shall any money in the Bond  
8 Account or any other money reasonably expected to be used to pay principal and/or interest on the  
9 Bonds be invested at a yield which would cause the Bonds to be arbitrage bonds within the meaning  
10 of Section 148 of the Code. Income from investments in the Principal and Interest Subaccount shall  
11 be deposited in that subaccount. Income from investments in the Reserve Subaccount shall be  
12 deposited in that subaccount until the amount therein is equal to the Reserve Requirement for all  
13 Parity Bonds, and thereafter shall be deposited in the Principal and Interest Subaccount.

14 The City may create sinking fund subaccounts or other subaccounts in the Bond Account for  
15 the payment or securing the payment of Parity Bonds as long as the maintenance of such subaccounts  
16 does not conflict with the rights of the owners of Parity Bonds.

17 Notwithstanding the provisions for deposit or retention of earnings in the Bond Account, any  
18 earnings which are subject to a federal tax or rebate requirement may be withdrawn from the Bond  
19 Account for deposit in a separate fund or account for that purpose. If no longer required for such  
20 rebate, money in that separate fund or account shall be returned to the Bond Account.

21 (f) **Failure to Deposit Money in Bond Account.** If the City fails to set aside and pay  
22 into the Bond Account, including the Reserve Subaccount, the amounts set forth above, the  
23 Registered Owner of any of the outstanding Parity Bonds may bring action against the City and  
24 compel such setting aside and payment. *Upon the redemption or defeasance of all of the then*  
25 *outstanding 1992 Bonds and 1995 Bonds, a Registered Owner of Parity Bonds may bring an action*  
26 *against the City for failure to make the required deposits to the Bond Account only in accordance*  
*with Section 28 of this ordinance.*

1 (g) **Provision for Maintenance and Operation Expense.** It is declared that in creating  
2 the Bond Account and in fixing the amounts to be paid into it as provided in paragraphs (c) and (d)  
3 of this Section 14, the City Council has had due regard for Operating and Maintenance Expense (and  
4 cost of maintenance and operation as contemplated by RCW 35.67.130), and is not setting aside into  
5 the Bond Account a greater amount than in the judgment of the City Council, based on the rates to be  
6 established from time to time consistent with Section 15(a), will be available over and above such  
7 Operating and Maintenance Expense (and such cost of maintenance and operation).

8 **Section 15. Parity Bond Covenants.** The City covenants and agrees with the owner of each  
9 of the Bonds as follows:

10 (a) **Rates and Charges; Coverage Requirement.** It will establish, maintain, revise as  
11 necessary and collect such rates and charges for drainage and wastewater service furnished which  
12 will produce Net Revenue (*or, upon the redemption or defeasance of all then outstanding 1992*  
13 *Bonds and 1995 Bonds, Adjusted Net Revenue*) available for debt service each calendar year at least  
14 equal to the Coverage Requirement. It will not change any rate or charge for drainage and  
15 wastewater service as now established by the existing rate ordinance or ordinances of the City that  
16 will substantially reduce the annual Gross Revenue of the Drainage and Wastewater System below  
17 that which would have been obtained before such change unless the City shall have on file a  
18 certificate from a licensed professional engineer experienced in the design, construction and  
19 operation of municipal utilities, or a certified public accountant experienced in drainage and  
20 wastewater system rates and charges, stating the rates and charges as so changed will provide Gross  
21 Revenue of the Drainage and Wastewater System sufficient to comply with all the covenants and  
22 requirements of this ordinance, including the Coverage Requirement.

23 (b) **Maintenance of Drainage and Wastewater System.** It will at all times maintain  
24 and keep the Drainage and Wastewater System in good repair, working order and condition,  
25 including, from time to time, making or causing to be made all necessary and proper repairs,  
26 renewals and replacements so that at all times the operation of such system shall be properly and

1 advantageously conducted, and will at all times operate the Drainage and Wastewater System and the  
2 business in connection therewith in an efficient manner and at a reasonable cost.

3 (c) **Sale of Drainage and Wastewater System.** It will not sell, lease, mortgage, or in  
4 any manner encumber or dispose of all of the property of the Drainage and Wastewater System  
5 unless provision is made for the payment into the Bond Account of an amount sufficient to pay the  
6 principal of and interest on Parity Bonds then outstanding; and it will not sell, lease, mortgage, or in  
7 any manner encumber or dispose of any part of the property of the Drainage and Wastewater System  
8 that is used, useful and material to the operation thereof, except consistent with one or more of the  
9 following:

10 (i) if provision is made for replacement thereof, or for payment into the Bond  
11 Account of the total amount of Gross Revenue received from the portion of the Drainage and  
12 Wastewater System sold, leased, mortgaged, encumbered or disposed of which shall not be less than  
13 an amount which shall bear the same ratio to the amount of Parity Bonds then outstanding as the  
14 Gross Revenue available for debt service for such outstanding bonds for the twelve (12) months  
15 preceding such sale, lease, mortgage, encumbrance or disposal from the portion of the Drainage and  
16 Wastewater System sold, leased, mortgaged, encumbered or disposed of bears to the Gross Revenue  
17 available for debt service for the then outstanding Parity Bonds from the entire Drainage and  
18 Wastewater System of the City for the same period. Any such money so paid into the Bond Account  
19 shall be used to retire such Parity Bonds at the earliest possible date; or

20 (ii) *upon the redemption or defeasance of all then outstanding 1992 Bonds and*  
21 *1995 Bonds, if the aggregate depreciated cost value of the property being encumbered or disposed*  
22 *of under this subparagraph (ii) in any fiscal year comprises no more than five percent (5%) of the*  
23 *total assets of the Drainage and Wastewater System.*

24 (d) **Books and Records.** It will, while any of the Bonds remain outstanding, keep proper  
25 and separate accounts and records in which complete and separate entries shall be made of all  
26 transactions relating to the Drainage and Wastewater System, and it will furnish the Registered  
Owner(s) of the Bonds or any subsequent Registered Owner(s) thereof, at the written request of such

1 Registered Owner(s), complete operating and income statements of the Drainage and Wastewater  
2 System in reasonable detail covering any fiscal year not more than six months after the close of such  
3 fiscal year and it will grant any Registered Owner(s) of at least twenty-five (25) percent of the  
4 outstanding Bonds the right at all reasonable times to inspect the entire Drainage and Wastewater  
5 System and all records, accounts and data of the City relating thereto. Upon request of any  
6 Registered Owner of any of the Bonds, it also will furnish to such Registered Owner a copy of the  
7 most recently completed audit of the City's accounts by the State Auditor of Washington.

8 (e) **Operating and Maintenance Expense.** It will pay all Operating and Maintenance  
9 Expense and otherwise meet the obligations of the City as herein set forth.

10 **Section 16. Preservation of Tax Exemption for Interest on Bonds.** The City covenants  
11 that it will take all actions consistent with the terms of the Bonds, this ordinance and the Bond  
12 Resolution reasonably within its power and necessary to prevent interest on the Bonds from being  
13 included in gross income for federal income tax purposes and it will neither take any action nor make  
14 or permit any use of the proceeds of the Bonds or other funds of the city treated as proceeds of the  
15 bonds at any time during the term of the Bonds which will cause interest on the Bonds to be included  
16 in gross income for federal income tax purposes.

17 The City has not been notified of any listing or proposed listing by the Internal Revenue  
18 Service to the effect that the City is a bond issuer whose arbitrage certifications may not be relied  
19 upon.

20 **Section 17. Future Parity Bond Conditions.** The City further covenants with the owner of  
21 each of the Bonds for as long as any of the Bonds are outstanding that it will not create any special  
22 account or fund or accounts or funds for the payment of the principal of and interest on any other  
23 revenue obligations or issue any other revenue obligations which will have any priority over or  
24 which will rank on a parity with the payments required by this ordinance to be made out of the Net  
25 Revenue of the Drainage and Wastewater System nor will it issue Future Parity Bonds, except that it  
26 reserves the right for

1 First, the purpose of acquiring, constructing and installing additions to, and  
2 betterments and improvements and extensions of, acquiring necessary equipment for, or  
3 making necessary replacements of or repairs or capital improvements to the Drainage and  
4 Wastewater System pursuant to an adopted system or plan of additions thereto and  
5 betterments and improvements thereof, or

6 Second, the purpose of refunding by exchange or purchasing and retiring or advance  
7 refunding by call and payment at or prior to their maturity any part or all of the outstanding  
8 Parity Bonds, or

9 Third, other purposes then permitted by law,  
10 to issue Future Parity Bonds therefor, and to make payments into the Bond Account from the Net  
11 Revenue sufficient to pay the principal of and interest on such Future Parity Bonds and to maintain a  
12 reserve therefor as hereinafter required, which payments may rank equally with the payments out of  
13 the Net Revenue required to be made into the Bond Account by this ordinance, if the following  
14 conditions and requirements are met and complied with at the time of the issuance of such Future  
15 Parity Bonds:

16 (a) At the time of issuance of such Future Parity Bonds, there shall not be a deficiency in  
17 either the Principal and Interest Subaccount or the Reserve Subaccount in the Bond Account.

18 (b) The Parity Bond Ordinance authorizing Future Parity Bonds shall provide for the  
19 creation of a sinking fund account in the Bond Account for any Term Bonds to be issued and for  
20 regular payments to be made into such account for the payment of the principal of such Term Bonds  
21 on or before their maturity, or, as an alternative, the mandatory redemption of such Term Bonds prior  
22 to their maturity date (except for a portion of such Term Bonds scheduled for redemption on their  
23 maturity date) from money in the Principal and Interest Account.

24 (c) The Parity Bond Ordinance authorizing such Future Parity Bonds shall provide for the  
25 payment of the principal thereof and interest thereon out of the Bond Account and shall further  
26 provide for the payment from the Net Revenue (*and, after the redemption or defeasance of all  
outstanding 1992 Bonds and 1995 Bonds, from ULID Assessments*) or from proceeds of those Future

1 Parity Bonds or from an Alternate Security, or by more than one, the Reserve Requirement of such  
2 Future Parity Bonds, except if such Future Parity Bonds are issued for the purpose of refunding any  
3 outstanding Parity Bonds, the amount of such reserve allocated to such bonds being so refunded shall  
4 be retained or used as a reserve for such refunding Future Parity Bonds or used to retire outstanding  
5 Bonds or outstanding Future Parity Bonds pursuant to the refunding plan, which reserve amount  
6 shall be replaced in the same manner and within the same time as required for additional Future  
7 Parity Bonds, or such reserve may remain in the Reserve Subaccount to be used as the reserve for  
8 remaining Parity Bonds. To the extent that the Reserve Requirement is not funded with proceeds of  
9 such Future Parity Bonds or by an Alternate Security, it shall be funded by equal annual deposits  
10 from Net Revenue (*and, after the redemption or defeasance of all then outstanding 1992 Bonds and  
11 1995 Bonds, from ULID Assessments*) so that it is fully deposited in the Reserve Subaccount by the  
12 fifth anniversary date of the date of the Future Parity Bonds.

13 Immediately prior to the issuance of Future Parity Bonds, amounts then deposited in the  
14 Reserve Subaccount shall be valued as determined on the most recent annual financial report of the  
15 City applicable to the Drainage and Wastewater System, and the additional amounts, if any, needed  
16 to be deposited into the Reserve Subaccount to satisfy the Reserve Requirement shall be based on  
17 that valuation.

18 (d) At the time of the issuance of such Future Parity Bonds, the City shall have on file a  
19 certificate from an independent, licensed professional engineer experienced in the design,  
20 construction and operation of municipal utilities, or a certified public accountant experienced in  
21 Drainage and Wastewater System rates and charges showing that in his or her professional opinion  
22 the Net Revenue will be equal to the Coverage Requirement. However, if Future Parity Bonds  
23 proposed to be so issued are for the sole purpose of refunding outstanding Parity Bonds, such  
24 certification of coverage shall not be required if the Annual Debt Service in each year for the  
25 refunding bonds is not increased over the amount required for the bonds to be refunded thereby and  
26 the maturities of those refunding bonds are not extended beyond the maturities of the bonds to be  
refunded thereby.

1 The engineer's or accountant's certificate, in estimating the Net Revenue or Adjusted Net  
2 Revenue, as applicable, shall use the historical Gross Revenue for any twelve (12) consecutive  
3 months out of the twenty-four (24) months immediately preceding the month of delivery of the  
4 Future Parity Bonds. The Gross Revenue may be adjusted to reflect any changes in rates in effect  
5 and being charged or expressly committed by ordinance of the City Council to be made in the future;  
6 may include income derived from customers of the Drainage and Wastewater System that have  
7 become customers during the twelve (12)-consecutive-month period or thereafter adjusted to reflect  
8 one year's net revenue from such customers; may include revenues from any customers to be  
9 connected to the Drainage and Wastewater System who have paid the required connection charges;  
10 may include the revenue to be derived from any person, firm, corporation or municipal corporation  
11 under any executed contract for Drainage or Wastewater service which revenue was not included in  
12 the historical Gross Revenue; and may include the engineer's or accountant's estimate of the Gross  
13 Revenue to be derived by the City from customers with improved property available to connect to  
14 any additions to and improvements and extensions of the Drainage and Wastewater System to be  
15 paid for out of the proceeds of the sale of the additional Future Parity Bonds or other additions to and  
16 improvements and extensions of the Drainage and Wastewater System then under construction and  
17 not fully connected to the facilities of the Drainage and Wastewater System when such additions,  
18 improvements and extensions are completed.

19 Actual or reasonably anticipated changes in the Operating and Maintenance Expense  
20 subsequent to such twelve (12)-month period shall be added or deducted, as is applicable. The use  
21 of money other than Gross Revenue for the payment of Operating and Maintenance Expense shall  
22 not exceed per year an amount used for that purpose during the twelve (12) months immediately  
23 preceding the date of issuance of the Future Parity Bonds.

24 Nothing contained in the provisions for Future Parity Bonds shall prevent the City from  
25 issuing revenue bonds or other obligations having a lien on the Gross Revenue subordinate to the  
26 lien of the Bonds and any Future Parity Bonds.

1 *Upon the redemption or defeasance of all then outstanding 1992 Bonds, the certificate*  
2 *required under this Section 17(d) may be provided by the Director of Seattle Public Utilities (as*  
3 *successor to the director of the Drainage and Wastewater System).*

4 *Upon the redemption or defeasance of all then outstanding 1992 Bonds and 1995 Bonds, all*  
5 *references to "Net Revenue" in this Section 17(d) shall be changed to "Adjusted Net Revenue."*

6 *Upon the redemption or defeasance of all then outstanding 1992 Bonds and 1995 Bonds, as*  
7 *an alternative to the certificate required under this Section 17(d), the City, at its option, may provide*  
8 *a certificate of the Director of Finance or the Director of Seattle Public Utilities demonstrating that*  
9 *during any twelve consecutive calendar months out of the immediately preceding twenty-four (24)*  
10 *calendar months Adjusted Net Revenue was at least equal to the Coverage Requirement for all Parity*  
11 *Bonds plus the Future Parity Bonds proposed to be issued (and assuming that the debt service of the*  
12 *proposed Future Parity Bonds for that twelve-month period was the Average Annual Debt Service for*  
13 *those proposed bonds).*

14 *(e) Upon the redemption or defeasance of all then outstanding 1992 Bonds and 1995*  
15 *Bonds, the Parity Bond Ordinance authorizing the Future Parity Bonds shall provide that all ULID*  
16 *Assessments shall be paid directly into the Bond Account.*

17 **Section 18. Continuing Disclosure.** The City shall undertake to provide for the benefit of  
18 holders of the Bonds disclosure of certain financial information and operating data of the type  
19 included in the final official statement, if any, for the Bonds, as well as disclosure of certain material  
20 events respecting the Bonds, in the manner and to the extent required by United States Securities and  
21 Exchange Commission Rule 15c2-12. The particular terms of this undertaking shall be set forth in  
22 the Bond Resolution.

23 **Section 19. Refunding and Defeasance.** If the City shall issue refunding bonds pursuant to  
24 the laws of the State, or have money available from any other lawful source, to pay the principal of  
25 and interest on the Bonds or such portion thereof included in the refunding or defeasance plan as the  
26 same become due and payable and to refund or defease such then outstanding Bonds and to pay the  
costs of refunding or defeasance, and shall have set aside irrevocably in a special fund for and

pledged to such payment, refunding or defeasance, money and/or Government Obligations sufficient in amount, together with known earned income from the investments thereof, to make such payments and to accomplish the refunding or defeasance as scheduled (hereinafter called the "trust account"), and shall make irrevocable provisions for redemption of such Bonds, then in that case all right and interest of the owners of the Bonds to be so retired, refunded or defeased (hereinafter collectively called the "defeased Bonds") in the covenants of this ordinance, in the Gross Revenue of the Drainage and Wastewater System, and funds and accounts obligated to the payment of such defeased Bonds, other than the right to receive the funds so set aside and pledged, thereupon shall cease and become void, except such owners shall have the right to receive payment of the principal of and interest on the defeased Bonds from the trust account and, in the event the funds in the trust account are not available for such payment, shall have the residual right to receive payment of the principal of and interest on the defeased Bonds from the Gross Revenue of the Drainage and Wastewater System without any priority of lien or charge against that revenue or assessments or covenants with respect thereto except to be paid therefrom. After the establishing and full funding of such trust account, the City then may apply any money in any other fund or account established for the payment or redemption of the defeased Bonds to any lawful purposes as it shall determine, subject only to the rights of the owners of any other Parity Bonds then outstanding.

If the refunding or defeasance plan provides that the defeased Bonds or the refunding bonds to be issued be secured by cash and/or Government Obligations pending the prior redemption of the defeased Bonds and if such refunding or defeasance plan also provides that certain cash and/or Government Obligations are pledged irrevocably for the prior redemption of those Bonds included in the refunding plan, then only the debt service on the Bonds which are not defeased Bonds and the refunding bonds, the payment of which is not so secured by the refunding or defeasance plan, shall be included in the computation of the Coverage Requirement for issuance of Future Parity Bonds and the annual computation of the Coverage Requirement for determining compliance with the rate covenants.

**Section 20. Sale of Bonds.** The Director of Finance may provide for the sale of the Bonds in one or more series by public sale or by a negotiated sale, limited offering or private placement, with the successful underwriter, placement agent or purchaser, as applicable, chosen through a selection process acceptable to the Director of Finance. The terms of that sale shall be consistent with this ordinance and confirmed by the Bond Resolution. The Bonds will be delivered to the purchasers as provided in the Bond Resolution, immediately upon payment to the City of the purchase price plus accrued interest to the date of closing in immediately available federal funds in Seattle, Washington at the City's expense, or at another place upon which the Director of Finance and the purchaser may mutually agree at the purchaser's expense.

CUSIP numbers (if required) will be printed on the Bonds, but neither failure to print CUSIP numbers on any Bond nor error with respect thereto shall constitute cause for a failure or refusal by the purchaser to accept delivery of and pay for the Bonds in accordance with the purchase offer. All expenses in relation to the printing of CUSIP numbers on the Bonds shall be paid by the City, but the fee of the CUSIP Service Bureau for the assignment of those numbers shall be the responsibility of and shall be paid by the purchaser.

The City will cause the Bonds to be typed, printed or lithographed, sealed and executed and will furnish the approving legal opinion of Bond Counsel regarding the Bonds.

**Section 21. Temporary Bonds.** Pending the printing, execution and delivery to the purchasers of the definitive Bonds, the City may cause to be executed and delivered to such purchasers a single temporary Bond of each series in the total principal amount of the Bonds of that series. Such temporary Bond shall bear the same dates of issuance, interest rates, principal payment dates and terms and covenants as the definitive Bonds of that series, and shall be issued as a fully registered Bond in the name of the purchasers, and shall be in the form as acceptable to such purchasers. Each temporary Bond shall be exchanged for the definitive Bonds as soon as the same are printed, executed and available for delivery.

**Section 22. Negotiability.** The Bonds shall be negotiable instruments to the extent provided by RCW 62A.8-102 and 62A.8-105.

1       **Section 23. Supplemental or Amendatory Ordinances.**

2           (a) This ordinance shall not be supplemented or amended in any respect  
3 subsequent to the initial issuance of the Bonds, except as provided in and in accordance with and  
4 subject to the provisions of this section.

5           (b) The City may from time to time and at any time, without the consent of or  
6 notice to the Registered Owners of the Bonds, pass supplemental or amendatory ordinances for the  
7 following purposes:

8               (1) To cure any formal defect, omission, inconsistency or ambiguity in this  
9 ordinance in a manner not adverse to the owner of any Parity Bonds;

10              (2) To impose upon the Bond Registrar (with its consent) for the benefit of  
11 the owners of the Bonds any additional rights, remedies, powers, authority, security, liabilities or  
12 duties which may lawfully be granted, conferred or imposed and which are not contrary to or  
13 inconsistent with this ordinance as theretofore in effect;

14              (3) To add to the covenants and agreements of, and limitations and  
15 restrictions upon, the City in this ordinance other covenants, agreements, limitations and restrictions  
16 to be observed by the City which are not contrary to or inconsistent with this ordinance as theretofore  
17 in effect;

18              (4) To confirm, as further assurance, any pledge under, and the subjection  
19 to any claim, lien or pledge created or to be created by this ordinance of any other money, securities  
20 or funds;

21              (5) To comply with any future federal law or interpretation to preserve the  
22 exclusion of the interest on the Bonds from gross income for federal income tax purposes;

23              (6) To authorize different denominations of the Bonds and to make  
24 correlative amendments and modifications to this ordinance regarding exchangeability of Bonds of  
25 different authorized denominations, redemptions of portions of Bonds of particular authorized  
26 denominations and similar amendments and modifications of a technical nature; and

1                       (7) To modify, alter, amend or supplement this ordinance in any other  
2 respect which is not materially adverse to the owners of the Bonds and which does not involve a  
3 change described in subsection (c) of this Section.

4           Before the City shall adopt any such supplemental or amendatory ordinance pursuant to this  
5 subsection, there shall have been delivered to the City and the Bond Registrar an opinion of Bond  
6 Counsel, stating that such supplemental or amendatory ordinance is authorized or permitted by this  
7 ordinance and will, upon the execution and delivery thereof, be valid and binding upon the City in  
8 accordance with its terms and will not adversely affect the exclusion from gross income for federal  
9 income tax purposes of interest on the Bonds.

10           (c) (1) Except for any supplemental or amendatory ordinance entered into  
11 pursuant to subsection (b) of this Section, subject to the terms and provisions contained in this  
12 subsection (c) and not otherwise, Registered Owners of not less than sixty percent (60%) in  
13 aggregate principal amount of the Bonds then outstanding shall have the right from time to time to  
14 consent to and approve the passage by the City Council of any supplemental or amendatory  
15 ordinance deemed necessary or desirable by the City for the purpose of modifying, altering,  
16 amending, supplementing or rescinding, in any particular, any of the terms or provisions contained in  
17 this ordinance; except that, unless approved in writing by the Registered Owners of all the Bonds  
18 then outstanding, nothing contained in this section shall permit, or be construed as permitting:

19               (i) A change in the times, amounts or currency of payment of the principal of or  
20 interest on any outstanding Bond, or a reduction in the principal amount or redemption price  
21 of any outstanding Bond or a change in the method of redemption or redemption price of any  
22 outstanding Bond or a change in the method of determining the rate of interest thereon, or

23               (ii) A preference or priority of any Bond or Bonds over any other Bond or Bonds,  
24 or

25               (iii) A reduction in the aggregate principal amount of Bonds, the consent of the  
26 Registered Owners of Bonds of which is required for any such supplemental or amendatory  
ordinance.

1 (2) If at any time the City shall adopt any supplemental or amendatory  
2 ordinance for any of the purposes of this subsection (c), the Bond Registrar shall cause notice of the  
3 proposed supplemental or amendatory ordinance to be given by first class United States Mail to all  
4 Registered Owners of the then outstanding Bonds and to the Rating Agencies. Such notice shall  
5 briefly set forth the nature of the proposed supplemental or amendatory ordinance and shall state that  
6 a copy thereof is on file at the office of the Bond Registrar for inspection by all Registered Owners of  
7 the outstanding Bonds.

8 (3) Within two years after the date of the mailing of such notice, the City  
9 may adopt such supplemental or amendatory ordinance in substantially the form described in such  
10 notice, but only if there shall have first been delivered to the Bond Registrar (i) the required  
11 consents, in writing, of the Registered Owners of the Bonds, and (ii) an opinion of Bond Counsel,  
12 stating that such supplemental or amendatory ordinance is authorized or permitted by this ordinance  
13 and, upon the execution and delivery thereof, will be valid and binding upon the City in accordance  
14 with its terms and will not adversely affect the exclusion from gross income for federal income tax  
15 purposes of interest on the Bonds.

16 (4) If Registered Owners of not less than the percentage of Bonds required  
17 by this subsection (c) shall have consented to and approved the execution and delivery thereof as  
18 herein provided, no owner of the Bonds shall have any right to object to the adoption of such  
19 supplemental or amendatory ordinance, or to object to any of the terms and provisions contained  
20 therein or the operation thereof, or in any manner to question the propriety of the adoption thereof, or  
21 to enjoin or restrain the City or the Bond Registrar from adopting the same or from taking any action  
22 pursuant to the provisions thereof.

23 (d) Upon the execution and delivery of any supplemental or amendatory ordinance  
24 pursuant to the provisions of this Section, this ordinance shall be, and be deemed to be, modified and  
25 amended in accordance therewith, and the respective rights, duties and obligations under this  
26 ordinance of the City, the Bond Registrar and all owners of Bonds then outstanding shall thereafter

1 be determined, exercised and enforced under this ordinance subject in all respects to such  
2 modifications and amendments.

3 **Section 24. Construction Account; Deposit of Proceeds.** An account to be known as the  
4 Drainage and Wastewater Construction Account, 2002 (the "Construction Account") is created in the  
5 Drainage and Wastewater Fund. The principal proceeds of the sale of the Bonds remaining after (a)  
6 the deposit of accrued interest on the Bonds, if any, into the Principal and Interest Subaccount, (b)  
7 the deposit of any proceeds as determined by the Bond Resolution into the Reserve Subaccount, shall  
8 be deposited into the Construction Account, unless otherwise specified in the Bond Resolution or  
9 directed by the Director of Finance, to be used for the purpose of paying part of the costs of carrying  
10 out the Plan of Additions and to pay for the costs of issuance of the Bonds. Until needed to pay such  
11 costs, the City may invest principal proceeds and interest thereon temporarily in any legal  
12 investment, and the investment earnings may, as determined by the Director of Finance, be retained  
13 in the Construction Account and be spent for the purposes of that fund or deposited in the Bond  
14 Account.

15 **Section 25. Separate Utility Systems.** Upon the maturity, redemption or defeasance of all  
16 the 1992 Bonds and 1995 Bonds, the City may create, acquire, construct, finance, own and operate  
17 one or more additional systems for drainage and wastewater or other commodity or service relating  
18 to the Drainage and Wastewater System. The revenue of that separate utility system shall not be  
19 included in the Gross Revenue and may be pledged to the payment of revenue obligations issued to  
20 purchase, construct, condemn or otherwise acquire or expand the separate utility system. Neither the  
21 Gross Revenue nor the Net Revenue of the Drainage and Wastewater System shall be pledged by the  
22 City to the payment of any obligations of a separate utility system except (1) as a Contract Resource  
23 Obligation upon compliance with Section 26 hereof and/or (2), with respect to the Net Revenue, on a  
24 basis subordinate to the lien of the Parity Bonds on that Net Revenue.

25 **Section 26. Contract Resource Obligations.** Upon the maturity, redemption or  
26 defeasance of all the 1992 Bonds and 1995 Bonds, the City may at any time enter into one or more  
Contract Resource Obligations for the acquisition, from facilities to be constructed, of drainage and

1 wastewater or other commodity or service relating to the Drainage and Wastewater System. The  
2 City may determine that, and may agree under a Contract Resource Obligation to provide that all  
3 payments under that Contract Resource Obligation (including payments prior to the time that  
4 drainage and wastewater or other commodity or service is being provided, or during a suspension or  
5 after termination of supply or service) shall be an Operating and Maintenance Expense if the  
6 following requirements are met at the time such a Contract Resource Obligation is entered into:

7 (a) No Event of Default as defined in Section 28 of this ordinance has  
8 occurred and is continuing.

9 (b) There shall be on file a certificate of an Independent Consulting  
10 Engineer stating that (i) the payments to be made by the City in connection with the  
11 Contract Resource Obligation are reasonable for the commodity or service rendered; (ii)  
12 any facilities to be constructed to provide the commodity or service are sound from a  
13 drainage and wastewater service or other commodity or service planning standpoint, are  
14 technically and economically feasible in accordance with prudent utility practice, and  
15 are likely to provide supply or transmission no later than a date set forth in the  
16 Independent Consulting Engineer's certification; and (iii) the Adjusted Net Revenue  
17 (further adjusted by the Independent Consulting Engineer's estimate of the payments to  
18 be made in accordance with the Contract Resource Obligation) for the five fiscal years  
19 following the year in which the Contract Resource Obligation is incurred, as such  
20 Adjusted Net Revenue is estimated by the Independent Consulting Engineer in  
21 accordance with the provisions of and adjustments permitted in Section 17(d) of this  
22 ordinance, will be at least equal to the Coverage Requirement.

23 Payments required to be made under Contract Resource Obligations shall not be subject to  
24 acceleration.

25 Nothing in this Section 26 shall be deemed to prevent the City from entering into other  
26 agreements for the acquisition of drainage and wastewater services or other commodity or service  
from existing facilities and from treating those payments as Operating and Maintenance Expenses.

Nothing in this Section 26 shall be deemed to prevent the City from entering into other agreements  
for the acquisition of drainage and wastewater services or other commodity or service from facilities  
to be constructed and from agreeing to make payments with respect thereto, such payments  
constituting a lien and charge on Net Revenue subordinate to the Parity Bonds.

**Section 27. Rate Stabilization Account.** The Rate Stabilization Account has been created  
as a separate account in the Drainage and Wastewater Fund. Upon the redemption or defeasance of

1 all the 1992 Bonds and 1995 Bonds, the City may at any time, as determined by the City and as  
2 consistent with Section 14(b), deposit in the Rate Stabilization Account Gross Revenue and any  
3 other money received by the Drainage and Wastewater System and available to be used therefor.  
4 The City may withdraw any or all of the money from the Rate Stabilization Account for inclusion in  
5 the Adjusted Gross Revenue for any fiscal year of the Drainage and Wastewater System. Such  
6 deposits or withdrawals may be made up to and including the date ninety (90) days after the end of  
7 the fiscal year for which the deposit or withdrawal will be included as Adjusted Gross Revenue.

8 No deposit of Gross Revenue shall be made into the Rate Stabilization Account to the extent  
9 that such deposit would prevent the City from meeting the Coverage Requirement in the relevant  
10 fiscal year.

11 **Section 28. Defaults and Remedies.** *The provisions of this Section 28 shall be effective*  
12 *upon the maturity, redemption or defeasance of all then outstanding 1992 Bonds and 1995 Bonds.*

13 (a) **Events of Default.** The following shall constitute "Events of Default" with respect to  
14 the Bonds:

15 (1) If a default is made in the payment of the principal of or interest on any of the  
16 Bonds when the same shall become due and payable; or

17 (2) If the City defaults in the observance and performance of any other of the  
18 covenants, conditions and agreements on the part of the City set forth in this ordinance or in any  
19 Parity Bond Ordinance (except as otherwise provided herein or in such Parity Bond Ordinance) and  
20 such default or defaults have continued for a period of six months after they have received from the  
21 Bondowners' Trustee (as defined below) or from the Registered Owners of not less than twenty-five  
22 percent (25%) in principal amount of the Parity Bonds, a written notice specifying and demanding  
23 the cure of such default. However, if the default in the observance and performance of any other of  
24 the covenants, conditions and agreements is one which cannot be completely remedied within the six  
25 (6) months after written notice has been given, it shall not be an Event of Default with respect to the

26 Bonds as long as the City has taken active steps within the six (6) months after written notice has  
been given to remedy the default and is diligently pursuing such remedy.

1 (b) **Bondowners' Trustee.** So long as such Event of Default has not been remedied, a  
2 bondowners' trustee (the "Bondowners' Trustee") may be appointed by the Registered Owners of  
3 twenty-five percent (25%) in principal amount of the Parity Bonds, by an instrument or concurrent  
4 instruments in writing signed and acknowledged by such Registered Owners of the Parity Bonds or  
5 by their attorneys-in-fact duly authorized and delivered to such Bondowners' Trustee, notification  
6 thereof being given to the City. That appointment shall become effective immediately upon  
7 acceptance thereof by the Bondowners' Trustee. Any Bondowners' Trustee appointed under the  
8 provisions of this Section 28 shall be a bank or trust company organized under the laws of the State  
9 of Washington or the State of New York or a national banking association. The bank or trust  
10 company acting as Bondowners' Trustee may be removed at any time, and a successor Bondowners'  
11 Trustee may be appointed, by the Registered Owners of a majority in principal amount of the Parity  
12 Bonds, by an instrument or concurrent instruments in writing signed and acknowledged by such  
13 Registered Owners of the Bonds or by their attorneys-in-fact duly authorized. The Bondowners'  
14 Trustee may require such security and indemnity as may be reasonable against the costs, expenses  
15 and liabilities that may be incurred in the performance of its duties.

16 In the event that any Event of Default in the sole judgment of the Bondowners' Trustee is  
17 cured and the Bondowners' Trustee furnishes to the City a certificate so stating, that Event of Default  
18 shall be conclusively deemed to be cured and the City, the Bondowners' Trustee and the Registered  
19 Owners of the Parity Bonds shall be restored to the same rights and position which they would have  
20 held if no Event of Default had occurred.

21 The Bondowners' Trustee appointed in the manner herein provided, and each successor  
22 thereto, is declared to be a trustee for the Registered Owners of all the Parity Bonds and is  
23 empowered to exercise all the rights and powers herein conferred on the Bondowners' Trustee.

24 (c) **Suits at Law or in Equity.** Upon the happening of an Event of Default and during  
25 the continuance thereof, the Bondowners' Trustee may, and upon the written request of the  
26 Registered Owners of not less than twenty-five percent (25%) in principal amount of the Parity  
Bonds outstanding shall, take such steps and institute such suits, actions or other proceedings, all as

1 it may deem appropriate for the protection and enforcement of the rights of the Registered Owners of  
2 the Parity Bonds, to collect any amounts due and owing to or from the City, or to obtain other  
3 appropriate relief, and may enforce the specific performance of any covenant, agreement or condition  
4 contained in this ordinance or in any of the Parity Bonds.

5 Nothing contained in this Section 28 shall, in any event or under any circumstance, be  
6 deemed to authorize the acceleration of maturity of principal on the Parity Bonds, and the remedy of  
7 acceleration is expressly denied to the Registered Owners of the Parity Bonds under any  
8 circumstances including, without limitation, upon the occurrence and continuance of an Event of  
9 Default.

10 Any action, suit or other proceedings instituted by the Bondowners' Trustee hereunder shall  
11 be brought in its name as Bondowners' Trustee and all such rights of action upon or under any of the  
12 Parity Bonds or the provisions of this ordinance may be enforced by the Bondowners' Trustee  
13 without the possession of any of those Parity Bonds and without the production of the same at any  
14 trial or proceedings relative thereto except where otherwise required by law. Any such suit, action or  
15 proceeding instituted by the Bondowners' Trustee shall be brought for the ratable benefit of all of the  
16 Registered Owners of those Parity Bonds, subject to the provisions of this ordinance. The respective  
17 Registered Owners of the Parity Bonds, by taking and holding the same, shall be conclusively  
18 deemed irrevocably to appoint the Bondowners' Trustee the true and lawful trustee of the respective  
19 Registered Owners of those Parity Bonds, with authority to institute any such action, suit or  
20 proceeding; to receive as trustee and deposit in trust any sums becoming distributable on account of  
21 those Parity Bonds; to execute any paper or documents for the receipt of money; and to do all acts  
22 with respect thereto that the registered owner himself or herself might have done in person. Nothing  
23 herein shall be deemed to authorize or empower the Bondowners' Trustee to consent to accept or  
24 adopt, on behalf of any Registered Owner of the Parity Bonds, any plan of reorganization or  
25 adjustment affecting the Parity Bonds or any right of any Registered Owner thereof, or to authorize  
26 or empower the Bondowners' Trustee to vote the claims of the Registered Owners thereof in any

1 receivership, insolvency, liquidation, bankruptcy, reorganization or other proceeding to which the  
2 City is a party.

3 (d) **Application of Money Collected by Bondowners' Trustee.** Any money collected  
4 by the Bondowners' Trustee at any time pursuant to this Section 28 shall be applied in the following  
5 order of priority:

6 (i) first, to the payment of the charges, expenses, advances and compensation of  
7 the Bondowners' Trustee and the charges, expenses, counsel fees, disbursements and compensation  
8 of its agents and attorneys; and

9 (ii) second, to the payment to the persons entitled thereto of all installments of  
10 interest then due on the Parity Bonds in the order of maturity of such installments and, if the amount  
11 available shall not be sufficient to pay in full any installment or installments maturing on the same  
12 date, then to the payment thereof ratably, according to the amounts due thereon to the persons  
13 entitled thereto, without any discrimination or preference; and

14 (iii) third, to the payment to the persons entitled thereto of the unpaid principal  
15 amounts of any Parity Bonds which shall have become due (other than Parity Bonds previously  
16 called for redemption for the payment of which money is held pursuant to the provisions hereto),  
17 whether at maturity or by proceedings for redemption or otherwise, in the order of their due dates  
18 and, if the amount available shall not be sufficient to pay in full the principal amounts due on the  
19 same date, then to the payment thereof ratably, according to the principal amounts due thereon to the  
20 persons entitled thereto, without any discrimination or preference.

21 (e) **Duties and Obligations of Bondowners' Trustee.** The Bondowners' Trustee shall  
22 not be liable except for the performance of such duties as are specifically set forth herein. During an  
23 Event of Default, the Bondowners' Trustee shall exercise such of the rights and powers vested in it  
24 hereby, and shall use the same degree of care and skill in its exercise, as a prudent person would  
25 exercise or use under the circumstances in the conduct of his or her own affairs. The Bondowners'  
26 Trustee shall have no liability for any act or omission to act hereunder except for the Bondowners'  
Trustee's own negligent action, its own negligent failure to act or its own willful misconduct. The

1 duties and obligations of the Bondowners' Trustee shall be determined solely by the express  
2 provisions of this ordinance, and no implied powers, duties or obligations of the Bondowners'  
3 Trustee shall be read into this ordinance.

4 The Bondowners' Trustee shall not be required to expend or risk its own funds or otherwise  
5 incur individual liability in the performance of any of its duties or in the exercise of any of its rights  
6 or powers as the Bondowners' Trustee, except as may result from its own negligent action, its own  
7 negligent failure to act or its own willful misconduct.

8 The Bondowners' Trustee shall not be bound to recognize any person as a Registered Owner  
9 of any Bond until his title thereto, if disputed, has been established to its reasonable satisfaction.

10 The Bondowners' Trustee may consult with counsel and the opinion of such counsel shall be  
11 full and complete authorization and protection in respect of any action taken or suffered by it  
12 hereunder in good faith and in accordance with the opinion of such counsel. The Bondowners'  
13 Trustee shall not be answerable for any neglect or default of any person, firm or corporation  
14 employed and selected by it with reasonable care.

15 (f) **Suits by Individual Bond Owners Restricted.** Neither the Registered Owner nor  
16 the beneficial owner of any one or more of Parity Bonds shall have any right to institute any action,  
17 suit or proceeding at law or in equity for the enforcement of same unless:

18 (i) an Event of Default has happened and is continuing; and

19 (ii) a Bondowners' Trustee has been appointed; and

20 (iii) such owner previously shall have given to the Bondowners' Trustee written  
21 notice of the Event of Default on account of which such suit, action or proceeding is to be instituted;  
22 and

23 (iv) the Registered Owners of twenty-five percent (25%) in principal amount of  
24 the Parity Bonds, after the occurrence of such Event of Default, has made written request of the  
25 Bondowners' Trustee and have afforded the Bondowners' Trustee a reasonable opportunity to  
26 institute such suit, action or proceeding; and

(v) there have been offered to the Bondowners' Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby; and

(vi) the Bondowners' Trustee has refused or neglected to comply with such request within a reasonable time.

No Registered Owner or beneficial owner of any Parity Bond shall have any right in any manner whatever by his action to affect or impair the obligation of the City to pay from the Net Revenue the principal of and interest on such Parity Bonds to the respective Registered Owners thereof when due.

(g) **Failure to Comply With Undertaking.** Notwithstanding anything in this Section 28 to the contrary, the failure of the City or any obligated person to comply with the Undertaking adopted by the Bond Resolution pursuant to Section 18 shall not constitute an Event of Default under this ordinance, the Bond Resolution or the Bonds, and the sole remedy of any holder of a Bond shall be to seek an order of specific performance from an appropriate court to compel the City to comply with the Undertaking.

**Section 29. General Authorization.** The Mayor and the Director of Finance and each of the other appropriate officers of the City are each authorized and directed to do everything as in their judgment may be necessary, appropriate or desirable in order to carry out the terms and provisions of, and complete the transactions contemplated by, this ordinance. In particular and without limitation, the Director of Finance may, in his discretion and without further action by the City Council, (a) comply with any continuing disclosure requirements applicable to the Bonds, (b) change the Bond Registrar or Securities Depository for the Bonds, and (c) deem final and approve the distribution of the preliminary official statement relating to the Bonds.

**Section 30. Severability.** The provisions of this ordinance are declared to be separate and severable. If a court of competent jurisdiction, all appeals having been exhausted or all appeal periods having run, finds any provision of this ordinance to be invalid or unenforceable as to any person or circumstance, such offending provision shall, if feasible, be deemed to be modified to be within the limits of enforceability or validity. However, if the offending provision cannot be so

modified, it shall be null and void with respect to the particular person or circumstance, and all other provisions of this ordinance in all other respects, and the offending provision with respect to all other persons and all other circumstances, shall remain valid and enforceable.

**Section 31. Ratification of Prior Acts.** Any action taken consistent with the authority but prior to the effective date of this ordinance, including, if applicable, but not limited to giving notices of the sale of Bonds, adopting of the Bond Resolution, executing contracts, making fund transfers and paying warrants, is ratified, approved and confirmed.

**Section 32. Headings.** Section headings in this ordinance are used for convenience only and shall not constitute a substantive portion of this ordinance.

**Section 33. Effective Date.** This ordinance shall take effect and be in force thirty (30) days from and after its approval by the Mayor, but if not approved and returned by the Mayor within ten (10) days after presentation, it shall take effect as provided by Municipal Code Section 1.04.020.

Passed by the City Council the \_\_\_\_ day of \_\_\_\_, 2002, and signed by me in open session in authentication of its passage this \_\_\_\_ day of \_\_\_\_, 2002.

\_\_\_\_\_  
President \_\_\_\_ of the City Council

Approved by me this \_\_\_\_ day of \_\_\_\_, 2002.

\_\_\_\_\_  
Gregory Nickels, Mayor

Filed by me this \_\_\_\_ day of \_\_\_\_, 2002.

\_\_\_\_\_  
City Clerk

(SEAL)

**APPENDIX B**

**FORM OF BOND COUNSEL LEGAL OPINION**

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FORM OF APPROVING LEGAL OPINION

The City of Seattle, Washington

Re: The City of Seattle, Washington, \$78,550,000 Drainage and  
Wastewater Revenue and Refunding Bonds, 2002

We have served as bond counsel to The City of Seattle, Washington (the “City”), in connection with the issuance of the above-referenced bonds (the “Bonds”), and in that capacity have examined such law and such certified proceedings and other documents as we have deemed necessary to render this opinion.

The Bonds are issued pursuant to the laws of the State of Washington and Ordinance 120386, Ordinance 120965 and Resolution 30548 of the City (collectively, the “Bond Legislation”) to provide the funds to pay part of the cost of carrying out a plan of additions or betterments to or extensions of the Drainage and Wastewater System, to refund certain outstanding bonds of the Drainage and Wastewater System, to provide for the Reserve Requirement, and to pay the costs of issuance and sale of the Bonds, all as set forth in the Bond Legislation.

Reference is made to the Bond Legislation for the definitions of the capitalized terms used and not otherwise defined herein.

The Bonds are dated December 1, 2002, and are in the denominations, bear interest payable on the dates and at the rates, mature at the times and in the amounts, and have such prepayment or redemption and other provisions set forth in the Bonds and in the Bond Legislation.

The Bonds are special limited obligations of the City payable from and secured solely by the Net Revenue of the Drainage and Wastewater System and by money in the Bond Account, including the Reserve Subaccount therein. The Net Revenue has been pledged to make the required payments into the Bond Account, which pledge constitutes a lien and charge upon such Net Revenue on a parity of lien and charge with the Outstanding Parity Bonds and any Future Parity Bonds.

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Alaska

PORTLAND  
Oregon

SEATTLE  
Washington

SPOKANE  
Washington

Under the Internal Revenue Code of 1986, as amended (the “Code”), the City is required to comply with certain requirements after the date of issuance of the Bonds in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Bond proceeds and the facilities financed or refinanced with Bond proceeds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances and the arbitrage rebate requirement to the extent applicable to the Bonds. The City has covenanted in the Bond Legislation to comply with those requirements, but if the City fails to comply with those requirements, interest on the Bonds could become taxable retroactive to the date of issuance of the Bonds. We have not undertaken and do not undertake to monitor the City’s compliance with such requirements.

As of the date of initial delivery of the Bonds to the purchaser thereof and full payment therefor, it is our opinion that under existing law:

1. The City is a duly organized and legally existing first class city under the laws of the State of Washington;
2. The City has duly authorized and approved the Bond Legislation, and the Bonds are issued in full compliance with the provisions of the Constitution and laws of the State of Washington, the Bond Legislation and other ordinances and resolutions of the City relating thereto;
3. The Bonds constitute valid obligations of the City payable solely from the Net Revenue of the Drainage and Wastewater System and money in the Bond Account, including the Reserve Subaccount therein, except only to the extent that enforcement of payment may be limited by bankruptcy, insolvency or other laws affecting creditors’ rights and by principles of equity if equitable remedies are sought;
4. The Bonds are not general obligations of the City; and
5. Assuming compliance by the City after the date of issuance of the Bonds with applicable requirements of the Code, the interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals; however, while interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by corporations is to be taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by certain S corporations may be subject to tax, and interest on the Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. We express no opinion regarding any other federal tax consequences of receipt of interest on the Bonds.

We express no opinion herein concerning the completeness or accuracy of any official statement, offering circular or other sales or disclosure material relating to the issuance of the Bonds or otherwise used in connection with the Bonds.

We bring to your attention the fact that the foregoing opinions are expressions of our professional judgment on the matters expressly addressed and do not constitute guarantees of result.

Respectfully submitted,

FOSTER PEPPER & SHEFELMAN PLLC

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**APPENDIX C**

**2001 AUDITED FINANCIAL STATEMENTS OF THE  
DRAINAGE AND WASTEWATER SYSTEM**

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## **SEATTLE PUBLIC UTILITIES – DRAINAGE AND WASTEWATER FUND**

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FINANCIAL STATEMENTS FOR THE  
YEARS ENDED DECEMBER 31, 2001 AND 2000, AND  
INDEPENDENT AUDITORS' REPORT

**Deloitte & Touche LLP**



## INDEPENDENT AUDITORS' REPORT

Director  
Seattle Public Utilities –  
Drainage and Wastewater Fund  
Seattle, Washington

We have audited the accompanying balance sheets of the Seattle Public Utilities – Drainage and Wastewater Fund (the Fund) as of December 31, 2001 and 2000, and the related statements of operations and changes in retained earnings and of cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, in 2001, the Fund changed its method of accounting for nonexchange transactions to conform with Governmental Accounting Standards Board (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

*Deloitte & Touche LLP*

March 27, 2002

# SEATTLE PUBLIC UTILITIES – DRAINAGE AND WASTEWATER FUND

## BALANCE SHEETS

DECEMBER 31, 2001 AND 2000

<u>ASSETS</u>	<u>2001</u>	<u>2000</u>
UTILITY PLANT, at original cost:		
Plant in service, excluding land	\$410,137,535	\$411,231,734
Less accumulated depreciation	<u>(114,819,379)</u>	<u>(111,283,530)</u>
	295,318,156	299,948,204
Construction in progress	78,525,246	60,491,529
Land and land rights	<u>3,669,480</u>	<u>3,485,541</u>
	377,512,882	363,925,274
RESTRICTED ASSETS:		
Bond Reserve Fund:		
Cash and equity in pooled investments	6,402,171	4,427,413
Dedicated investment		1,627,597
Construction Fund:		
Cash and equity in pooled investments	31,928,603	12,183,622
Investments	10,281,933	
Vendor deposits – Cash and equity in pooled investments	<u>364,806</u>	<u>368,588</u>
	48,977,513	18,607,220
CURRENT ASSETS:		
Cash and equity in pooled investments	10,883,208	9,576,493
Accounts receivable, net of allowances for doubtful		
accounts of \$75,502 and \$52,355	8,547,869	8,450,513
Unbilled revenues	8,315,408	6,908,483
Due from other City funds	231,833	686,736
Due from other governments	436,077	51,562
Current portion of notes and contracts receivable	33,074	36,427
Prepayments and other	<u>358</u>	<u>745</u>
	28,447,827	25,710,959
DEFERRED CHARGES AND OTHER:		
Unamortized bond issue costs, net	1,675,407	1,002,953
Prepaid secondary treatment service	380,151	434,458
Other deferred charges	<u>9,055,023</u>	<u>870,913</u>
	<u>11,110,581</u>	<u>2,308,324</u>
TOTAL	<u>\$466,048,803</u>	<u>\$410,551,777</u>

See notes to financial statements.

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EQUITY AND LIABILITIES20012000

## EQUITY:

Retained earnings

\$ 15,016,731

\$ 17,214,992

Contributions in aid of construction

237,805,167237,805,167

252,821,898

255,020,159

## REVENUE BONDS:

Revenue bonds, due serially

191,725,000

134,025,000

Less revenue bonds due within one year

(3,780,000)

(2,980,000)

Less bond discount and premium, net

(1,919,414)

(1,337,171)

Less deferred charges on advanced refunding

(1,437,806)(1,513,480)

184,587,780

128,194,349

## NONCURRENT AND OTHER LIABILITIES:

Claims payable

1,881,174

3,699,620

Vendor deposits payable

364,806

368,564

Public works trust loan

47,063

56,476

Environmental liability

1,138,000

Other

394,233295,424

3,825,276

4,420,084

## CURRENT LIABILITIES:

Accounts payable

12,907,454

10,227,278

Accrued payroll and payroll taxes payable

693,894

481,501

Accrued taxes payable

269,394

281,091

Accrued interest payable

1,429,564

944,955

NOAA settlement payable

1,022,664

1,022,664

DOE – Loan payable

88,889

Compensated absences payable

1,620,401

1,311,387

Due to other City funds

2,418,685

4,984,644

Claims payable

542,032

615,634

Revenue bonds due within one year

3,780,000

2,980,000

Public works trust loan due within one year

9,413

9,413

Deferred credits and other

31,45958,618

24,813,849

22,917,185

TOTAL

\$ 466,048,803\$ 410,551,777

# SEATTLE PUBLIC UTILITIES – DRAINAGE AND WASTEWATER FUND

## STATEMENTS OF OPERATIONS AND CHANGES IN RETAINED EARNINGS YEARS ENDED DECEMBER 31, 2001 AND 2000

	<u>2001</u>	<u>2000</u>
OPERATING REVENUES:		
Direct service	\$ 135,377,781	\$ 130,039,919
Other	<u>860,415</u>	<u>776,686</u>
	136,238,196	130,816,605
OPERATING EXPENSES:		
Wastewater treatment	80,389,233	78,282,898
Resource management	5,050,474	4,367,635
Field operations	11,677,755	12,840,205
Engineering services	1,977,246	1,918,637
Customer services	4,215,839	4,058,191
General and administrative	7,048,927	6,035,869
City business and occupation taxes	13,103,793	12,952,650
Other taxes	1,635,731	1,553,100
Depreciation and amortization	<u>7,251,887</u>	<u>6,732,204</u>
	<u>132,350,885</u>	<u>128,741,389</u>
Net operating income	3,887,311	2,075,216
OTHER INCOME (EXPENSES):		
Investment and interest income	2,734,567	2,943,716
Interest expense	(5,340,769)	(4,745,831)
Amortization of debt expenses	(184,227)	(186,268)
Gain on sale of capital assets	(205,525)	(23,427)
Other, net	<u>(1,195,890)</u>	<u>857,256</u>
	(4,191,844)	(1,154,554)
CAPITAL AND OPERATING FEES, CONTRIBUTIONS, AND GRANTS:		
Capital fees, contributions, and grants	(2,071,309)	
Operating fees, contributions, and grants	<u>177,581</u>	<u>49,879</u>
	<u>(1,893,728)</u>	<u>49,879</u>
NET INCOME (LOSS)	(2,198,261)	970,541
RETAINED EARNINGS:		
Beginning of year	<u>17,214,992</u>	<u>16,244,451</u>
End of year	<u>\$ 15,016,731</u>	<u>\$ 17,214,992</u>

# SEATTLE PUBLIC UTILITIES – DRAINAGE AND WASTEWATER FUND

## STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2001 AND 2000

	<u>2001</u>	<u>2000</u>
OPERATING ACTIVITIES:		
Cash received from customers	\$ 134,804,303	\$ 141,556,701
Cash paid to suppliers and employees	(111,483,437)	(105,649,545)
Cash paid for taxes	<u>(14,723,161)</u>	<u>(14,512,009)</u>
Net cash provided by operating activities	8,597,705	21,395,147
NONCAPITAL FINANCING ACTIVITIES:		
Operating grants received	177,581	99,740
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from sale of bonds	60,680,000	
Principal payments on long-term debt	(2,989,413)	(3,225,000)
Contributions by municipalities and others	1,383,106	137,759
Capital expenditures and deferred charges	(32,525,625)	(38,975,622)
Interest paid on long-term debt	(8,172,931)	(4,860,304)
Proceeds from sale of fixed assets	2,980,000	
Discount and other expenses related to issuance of bonds	<u>(1,363,250)</u>	<u>                    </u>
Net cash provided (used) by capital and related financing activities	19,991,887	(46,923,167)
INVESTING ACTIVITIES:		
Purchases of investments	(10,281,933)	
Proceeds from sales of investments	1,802,865	
Interest received on investments	<u>2,734,567</u>	<u>2,799,226</u>
Net cash provided (used) by investing activities	<u>(5,744,501)</u>	<u>2,799,226</u>
NET INCREASE (DECREASE) IN CASH AND EQUITY IN POOLED INVESTMENTS	23,022,672	(22,629,054)
CASH AND EQUITY IN POOLED INVESTMENTS:		
Beginning of year	<u>26,556,116</u>	<u>49,185,170</u>
End of year	<u>\$ 49,578,788</u>	<u>\$ 26,556,116</u>

## SEATTLE PUBLIC UTILITIES – DRAINAGE AND WASTEWATER FUND

STATEMENTS OF CASH FLOWS *(continued)*  
YEARS ENDED DECEMBER 31, 2001 AND 2000

	<u>2001</u>	<u>2000</u>
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net operating income	\$ 3,887,311	\$ 2,075,216
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation and amortization	7,251,887	6,732,204
Cash provided (used) by changes in operating assets and liabilities:		
Accounts receivable	(97,356)	285,390
Unbilled revenues	(1,406,925)	261,052
Due from other City funds	454,903	10,200,573
Other assets	(380,775)	778
Vendor deposits payable	(3,758)	142,584
Accounts payable	2,680,176	1,161,600
Accrued payroll and payroll taxes payable	212,393	(161,201)
Compensated absences payable	309,014	768,560
Due to other City funds	(2,594,019)	(1,364,722)
Claims payable	(1,892,048)	1,226,309
Other liabilities	<u>176,902</u>	<u>66,804</u>
Total adjustments	<u>4,710,394</u>	<u>19,319,931</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 8,597,705</u>	<u>\$ 21,395,147</u>

# SEATTLE PUBLIC UTILITIES – DRAINAGE AND WASTEWATER FUND

NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2001 AND 2000

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## NOTE 1: OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Operations:** The City of Seattle, Seattle Public Utilities – Drainage and Wastewater Fund (the Fund) is a public utility enterprise fund of the City of Seattle (the City). On January 1, 1997, the City created Seattle Public Utilities (SPU), which brought together under one administrative umbrella the Water, Solid Waste, and Drainage and Wastewater functions of the City as well as certain engineering functions. The Fund (as well as the other funds) remains separate for accounting purposes. SPU receives certain services from other departments and agencies of the City, including some that are normally considered as general and administrative. The Fund is charged a share of these costs and additionally pays a business and occupation tax to the City's General Fund. Wastewater disposal services provided to other City departments and agencies are at rates prescribed by City ordinances.

SPU provides customer service for, and the cost is shared among, SPU's three utility funds (Water, Drainage and Wastewater, and Solid Waste) and Seattle City Light (SCL). In addition, SPU also performed utility billing for each of these entities until early 2001, when SCL implemented its new billing system, Combined Customer Service System, and began performing the utility billing service for each of the entities. Instead of billing each other for the two operating services, SPU and SCL made an arrangement to exchange the services. For the years ended December 31, 2001 and 2000, the charge to the Fund was \$4,215,839 and \$4,058,191, respectively. The amount shared by SCL for 2001 and 2000 was \$636,514 and \$3,322,062, respectively. SPU received approximately \$2,276,000 of exchanged services in 2001.

The Fund is subject to regulation by the City and the state of Washington. Service rates are authorized by ordinances passed by the City Council. Accounting policies and financial reporting are regulated by the Washington State Auditor's Office, Division of Municipal Corporations and conform to accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Fund has chosen to apply all pronouncements and interpretations issued by the GASB, as well as those issued by the Financial Accounting Standards Board (FASB) on or before November 30, 1989, except when they conflict with the GASB.

**Basis of accounting:** The Fund is accounted for on a flow of economic resources measurement focus. Its financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental units using the accrual basis of accounting. With the flow of economic resources measurement focus, all assets and liabilities associated with the Fund's operations are included on the balance sheet. The operating statements present increases (revenues) and decreases (expenses) in total assets.

**Revenues:** Wastewater service revenues are recorded through cycle billings rendered to customers monthly or bimonthly. The Fund accrues and records unbilled wastewater service revenues in the financial statements for services provided from the date of the last billing to year end.

Drainage service charges are billed to the City's drainage residential and nonresidential customers twice a year through the service of King County's property tax billing system. These charges fund operations and maintenance of and improvement to the City's system of storm and drainage facilities.

**Utility plant:** Costs of additions to utility plant are capitalized. Costs include direct material, labor, and indirect costs such as engineering, supervision, payroll taxes, pension benefits, and interest. The cost of current repairs and maintenance is charged to expense, while the cost of improvements is capitalized.

**Depreciation:** Plant in service is depreciated on the straight-line method over estimated useful lives as follows:

Buildings	50 years
Laterals, mains, and outfalls	75 years
Detention structures	50 years
Pumping stations, equipment, and overflow structures	10 – 50 years
Machinery and equipment	3 – 20 years

Composite rates, based on year of addition, are used for depreciating the laterals, mains, and outfalls asset groups. Consequently, when these assets are retired, their original cost, less salvage, is charged to accumulated depreciation. It is the Fund's policy to begin depreciation in the year following acquisition and to record a full year's depreciation in the year of disposition.

**Deferred charges:** The Fund capitalizes all direct and incremental costs and the related overhead incurred in connection with the development of significant information system projects that are to be used internally. Such costs are shown as other deferred charges on the balance sheets and are amortized over the project's estimated useful life, usually six to eight years. In 2001, the Fund put a computer system, the Consolidated Customer Service System (CCSS), in service. Deferred CCSS costs of \$8,664,258 will be amortized for eight years beginning in 2002.

The City and the Fund designed and installed a geographic information system (GIS) that was placed into service in 1996. Deferred system costs totalling \$3,486,614 are being amortized over six years. Amortization expense of \$581,102 was recognized in both 2001 and 2000.

The Fund prepaid \$1,086,146 in 1986 to another wastewater district for certain secondary treatment wastewater services to be provided in the future. This payment was made to fund a portion of the cost of future construction of a secondary treatment plant to be owned and operated by the other district. The treatment plant was completed in 1989. The Fund is amortizing the deferred costs to expense over a period of 20 years at \$54,307 per year and includes the amortization in rates charged to customers.

**Compensated absences:** Employees earn vacation based upon their date of hire and years of service, and may accumulate earned vacation up to a maximum of 480 hours. Unused vacation at retirement or normal termination is considered vested and payable to the employee. Earned but unused vacation is accrued as a liability of the Fund.

Employees also earn up to 12 days of sick leave per year and may accumulate sick leave balances without limit. Employees are paid 25% of the value of unused sick leave upon retirement. They are not paid for unused sick leave if they leave before retirement. The Fund records a liability for estimated sick-leave payments.

**Taxes:** The Fund is charged a business and occupation tax by the City at a rate of 10% of Fund revenues, net of certain credits. In addition, the Fund paid a public utility tax to the state based on

approximately 4% of a certain portion of revenues. The remainder was taxed under the business and occupation tax at the rate of 1.5% in 2001 and 2000.

**New accounting pronouncement:** In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, effective for the Fund in fiscal year 2002. For the Fund, this statement will require certain formatting changes to the basic financial statements as well as a required section covering management's discussion and analysis and certain other required supplementary information. The Fund does not anticipate a material impact to the financial position or operations of the Fund as a result of implementing this standard.

**Accounting changes:** In December 1998, the GASB issued Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, that requires the Fund to report nonexchange transactions as revenue. The Fund adopted GASB Statement No. 33 in the year ended December 31, 2001. Capital and operating grants and the donor cost or fair value of contributed property and equipment was reported as a component of equity as contributions in aid of construction prior to implementation of GASB Statement No. 33. In 2001, capital and operating fees, contributions, and grants are accounted for in the statements of operations and changes in retained earnings as a result of the adoption of this statement. The cumulative effect of the adoption of this statement will be made in 2002 in conjunction with the implementation of GASB Statement No. 34.

**Capital fees, contributions, and grants:** In 2001, the Fund transferred certain sewer assets and billing records free of charge to the Shoreline Ronald Wastewater District in conjunction with a transfer of the service area from Seattle to Shoreline Ronald. The transferred assets, with a net value of \$3.4 million, include facilities originally donated to the Fund by Shoreline in the mid-1970s. In accordance with GASB Statement No. 33, the Fund recognized the \$3.4 million contribution as an expense on its statement of operations and changes in retained earnings as capital fees, contributions, and grants.

**Use of estimates:** The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements. Estimates and assumptions are used to record unbilled revenues, allowance for doubtful accounts, accrued sick leave, environmental liabilities and other contingencies. Changes in these estimates and assumptions may have a material impact on the financial statements.

**Reclassifications:** Certain reclassifications have been made to prior year balances to provide a presentation consistent with the current year.

## **NOTE 2: CASH AND EQUITY IN POOLED INVESTMENTS AND INVESTMENTS**

The City's Department of Finance invests all temporary cash surpluses for City departments. This department may, at various times, invest these surpluses in certificates of deposit issued by Washington State depositories that participate in a state insurance pool, U.S. Treasury and agency securities, prime bankers' acceptances trading in the secondary market, and repurchase or reverse-repurchase agreements with primary dealers that use authorized securities as collateral. Delivery of collateral on the underlying securities is required on all repurchase agreement transactions. The Fund is allocated interest income by the City.

It is the City's policy that all investments of the Fund, except repurchase or reverse-repurchase agreements, be held by banks or trust companies as agents of the City and in the City's name. The City's policy is to hold all investments until maturity. The Fund did not own any repurchase or reverse-repurchase agreements during 2001 and 2000. Investments are stated at fair value, which is estimated based on quoted prices for those investments.

The first \$100,000 of bank deposits are federally insured. The Washington State Public Deposit Protection Commission (PDPC) collateralizes deposits in excess of \$100,000. The PDPC is a multiple financial institution collateral pool. There is no provision for the PDPC to make additional pro rata assessments if needed to cover a loss. Therefore, the PDPC protection is of the nature of collateral, not of insurance.

The City considers highly liquid, short-term investments with original maturities of three months or less to be cash equivalents. The cash pool operates like a demand deposit account in that all agencies, including the City, may deposit cash at any time and can also withdraw cash out of the pool without prior notice or penalty. Accordingly, the statements of cash flows reconcile to cash and equity in pooled investments, plus the cash held in escrow for vendors. Securities with maturities exceeding three months at time of purchase are reported at fair value on the balance sheets; the net increase (decrease) in the fair value of those investments is reported as part of investment income.

Construction fund investments of \$10,281,933, which are shown on the balance sheet under restricted assets as of December 31, 2001, are categorized to give an indication of the level of risk assumed by the Fund at year end. All investments are considered to be Category 1 based on the criteria promulgated by the GASB. Category 1 includes investments that are insured or for which the securities are held by the Fund or its agent in the Fund's name. Investments held as of December 31, 2001, are U.S. government securities.

### **NOTE 3: UTILITY PLANT**

Utility plant consists of the following as of December 31:

	<u>2001</u>	<u>2000</u>
Buildings	\$ 381,581	\$ 381,581
Improvements	400,944,246	403,243,247
Machinery and equipment	6,524,364	6,197,517
Desktop processing equipment	5,247	5,247
Direct service meters and services	1,993,956	1,116,001
Artwork	<u>288,141</u>	<u>288,141</u>
Total plant in service	410,137,535	411,231,734
Less accumulated depreciation	<u>(114,819,379)</u>	<u>(111,283,530)</u>
	295,318,156	299,948,204
Construction in progress	78,525,246	60,491,529
Land and land rights	<u>3,669,480</u>	<u>3,485,541</u>
Utility plant, net	<u>\$ 377,512,882</u>	<u>\$ 363,925,274</u>

During 2001 and 2000, the Fund capitalized interest costs relating to construction of \$3,316,770 and \$2,703,335, respectively.

#### NOTE 4: REVENUE BONDS

At December 31, 2001 and 2000, revenue bonds consists of the following:

	<u>2001</u>	<u>2000</u>
2001 Municipal Drainage and Wastewater Revenue Bonds, 4.25% – 5.25% due through 2031, insured by a third- party insurer	\$ 60,680,000	\$ –
1999 Municipal Drainage and Wastewater Revenue Bonds, 4.0% – 5.75% due through 2029, insured by a third- party insurer	53,570,000	\$ 54,425,000
1998 Municipal Drainage and Wastewater Revenue Bonds, 4.5% – 5.0%, due through 2027, insured by a third- party insurer	22,520,000	22,940,000
1995 Municipal Drainage and Wastewater Improvement and Refunding Revenue Bonds, 5.0% – 5.25%, due through 2025, insured by a third-party insurer	36,770,000	37,705,000
1992 Municipal Drainage and Wastewater Revenue Bonds, 5.1% – 6.0%, due through 2022	18,185,000	18,630,000
1971 Municipal Sewage Revenue Bonds, 4.0% – 6.0%, due through 2001		<u>325,000</u>
	<u>\$ 191,725,000</u>	<u>\$ 134,025,000</u>

In June 2001, the Fund issued \$60,680,000 of Drainage and Wastewater Revenue Bonds with varying annual and term principal payments beginning in 2002 and ending in 2031, with annual interest rates ranging from 4.25% to 5.25%.

Proceeds of the revenue bonds are being used to finance certain capital improvements and additions to the Drainage and Wastewater System and other costs associated with bond issuance.

Minimum debt service requirements on revenue bonds are as follows:

<u>Years ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 3,780,000	\$ 10,045,199	\$ 13,825,199
2003	3,945,000	9,871,139	13,816,139
2004	4,125,000	9,687,722	13,812,722
2005	4,305,000	9,494,109	13,799,109
2006	4,515,000	9,288,940	13,803,940
Thereafter	<u>171,055,000</u>	<u>122,547,124</u>	<u>293,602,124</u>
	<u>\$ 191,725,000</u>	<u>\$ 170,934,233</u>	<u>\$ 362,659,233</u>

The revenue bonds contain certain financial covenants, the most significant of which requires the Fund to maintain net revenue available for debt service at least equal to 1.25 times average annual debt service. Net revenue available for debt service, as defined by the bond covenants, was 2.60 times annual debt service for 2001. Net revenue available for debt service for the year ended December 31, 2001, is determined as follows:

Net operating income	\$ 3,887,311
Add:	
City occupation tax	13,103,793
Depreciation and amortization	7,251,887
Investment income	2,734,567
Claims, damages, and other expenses not paid in 2001	1,892,048
Operating grants	<u>177,581</u>
Adjusted net revenue available for debt service	<u>\$ 29,047,187</u>
Debt service requirement	<u>\$ 11,166,720</u>
Coverage	<u>2.60</u>

#### **NOTE 5: ENVIRONMENTAL LIABILITIES**

In 1991, the City entered into a consent decree (the Decree) with the United States, the Muckleshoot Indian Tribe, the Suquamish Indian Tribe, and the state of Washington to make restitution of up to \$12,125,000 for alleged damages to the natural resources of Elliott Bay and the Lower Duwamish River by combined sewer overflow and storm drain discharges (the NOAA Settlement). The Elliott Bay Duwamish Restoration Program Panel (the Panel), of which the City is a member, was formed to direct the project activities to be performed in accordance with the Decree.

The Decree calls for payment of \$6,000,000 for sediment remediation, \$2,500,000 for habitat development, and \$125,000 for reimbursement of costs for natural resources damage assessment. The Panel may allow for payment through in-kind services as approved. Additionally, up to \$2,500,000 of real property and up to \$1,000,000 of in-kind services for source control must be provided. The Fund is charged with the responsibility of managing the City's obligation, which includes contributions from other funds.

In 1997, the Fund made a cash payment of approximately \$6,235,000 toward the liability. An additional \$2,200,000 of the liability was settled by the Parks Department on behalf of the Fund, through a donation of real property. Prior to December 31, 1996, the Fund settled \$2,364,000 of the liability through cash payments and in-kind services. The remaining liability is estimated to be \$1,022,664 at December 31, 2001.

Separately, the U.S. Environmental Protection Agency (EPA) has indicated that it will require the clean-up and remediation of certain Duwamish sites under its Superfund authority. No specific requirements have been made from the EPA at the time of this footnote. The Fund has accrued approximately \$1.1 million to cover future study and evaluation of possible clean-up and remediation costs.

#### **NOTE 6: RETIREMENT PLANS**

**Pension costs:** All permanent Fund employees are eligible to participate in the Seattle City Employees' Retirement System (the System), a cost-sharing public employee retirement system operated by the City. Benefits vest after five years of covered service. City employees may retire after 30 years of service regardless of age; after age 52, with 20 or more years of service; after age 57, with 10 or more years of service; and after age 62, with five or more years of service. The System also provides death and dis-

ability benefits. These benefit provisions and all other requirements are established by City ordinances. The System's financial report that includes financial statements and required supplementary information for the System is available through the City.

City employees are required to contribute 8.03% of their annual base salary to the System. The City's contribution rate was 8.03% as of January 1, 2001 and 2000. Employer rates are established by the City Council on a biannual basis. The Fund's contributions to the System for the years ended December 31, 2001, 2000, and 1999, were \$1,117,677, \$1,072,229, and \$560,984, respectively. The Fund's contribution in 2001 represents its full liability to the System.

The System issues stand-alone financial statements which may be obtained by writing to the Seattle City Employees' Retirement System, 801 Third Avenue, Suite 300, Seattle, Washington, 98104; telephone (206) 386-1292.

Employer contributions for the City of Seattle are as follows (dollars in millions):

<u>Year ended December 31,</u>	<u>City required contribution</u>	<u>City actual contribution</u>	<u>Percentage contributed</u>
1999	\$ 29.7	\$ 29.7	100 %
2000	30.8	30.8	100
2001	32.5	32.5	100

Actuarial data and assumptions

Valuation date	January 1, 2001
Actuarial cost method	Entry age
Amortization method	Level percent
Remaining amortization period	-0- years
Amortization period	Open
Asset valuation method	Market
Investment rate of return	8.00%
Projected general wage inflation	4.50%
Postretirement benefit increases	.67%

Schedules of funding progress is as follows (dollars in millions):

<u>Actuarial valuation date</u>	<u>Actuarial value of assets (a)</u>	<u>Actuarial accrued liabilities (AAL) – entry age <sup>(1)</sup> (b)</u>	<u>Unfunded AAL (UAAL) <sup>(2)</sup> (b-a)</u>	<u>Funded ratio (a/b)</u>	<u>Covered payroll <sup>(3)</sup> (c)</u>	<u>UAAL as a percentage of covered payroll ((b-a)/ c)</u>
1/1/1999	\$ 1,375.0	\$ 1,326.6	\$ (48.4)	103.6 %	\$ 370.4	(13.1)%
1/1/2000	1,582.7	1,403.1	(179.6)	112.8	370.4	(48.5)
1/1/2001	1,493.1	1,490.3	(2.8)	100.2	383.7	(.7)

- (1) Actuarial present value of benefits less actuarial present value of future normal costs based on entry age actuarial cost method.
- (2) Actuarial accrued liabilities less actuarial value of assets.
- (3) Covered payroll includes compensation paid to all active employees on which contributions are calculated.

**Deferred compensation:** The City offers all of its employees a deferred compensation plan (the Plan), created in accordance with Internal Revenue Code (IRC) Section 457. The Plan permits employees to defer a portion of their salaries until future years. The deferred compensation is paid to employees upon termination, retirement, death, or unforeseeable emergency.

Effective January 1, 1999, the Plan is an eligible deferred compensation plan under Section 457 of the IRC of 1986, as amended, and a trust exempt from tax under IRC Sections 457(g) and 501(a). The Plan is operated for the exclusive benefit of participants and their beneficiaries. No part of the corpus or income of the Plan shall revert to the City or be used for, or diverted to, purposes other than the exclusive benefit of participants and their beneficiaries.

The Plan is not reported in the financial statements of the City or the Fund.

It is the opinion of the City's legal counsel that the City has no liability for investment losses under the Plan. Under the Plan, participants select investments from alternatives offered by the Plan Administrator, who is under contract with the City to manage the Plan. Investment selection by a participant may be changed from time to time. The City does not manage any of the investment selections. By making selections, participants accept and assume all risks inherent in the Plan and its administration.

#### **NOTE 7: RISK FINANCING LIABILITIES**

The City and the Fund are self-insured for certain losses arising from personal and property damage claims by third parties and for casualty losses to the Fund's property. Liabilities for identified claims and claims incurred but not reported have been recorded by the Fund.

For 2001 and 2000, liabilities for workers' compensation claims as well as other claims are discounted over a 15-year period at the City's rate of return on investments, 5.34% and 6.17%, respectively. Claims expected to be paid within one year were \$542,032 and \$615,634 at December 31, 2001 and 2000, respectively. The schedules below present the changes in the liability for workers' compensation claims and other claims (risk financing liabilities) as of December 31:

	<u>2001</u>	<u>2000</u>
Beginning liability	\$ 4,315,254	\$ 3,088,945
Payments	(1,045,990)	
Incurred claims and changes in estimate	<u>(846,058)</u>	<u>1,226,309</u>
Ending liability	<u>\$ 2,423,206</u>	<u>\$ 4,315,254</u>

#### **NOTE 8: WASTEWATER DISPOSAL AGREEMENT**

The Fund has a wastewater disposal agreement with the King County Department of Natural Resources Wastewater Treatment Division (the Division), which expires in 2036. The monthly wastewater disposal charge paid to the Division is based on the Division's budgeted cost for providing the service. The charges are determined by water consumption and the number of single-family residences as reported by the City of Seattle Public Utilities and other component agencies, and were \$79,454,443 and \$77,526,021 for fiscal years 2001 and 2000, respectively.

**APPENDIX D**

**DEMOGRAPHIC AND ECONOMIC INFORMATION**

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## DEMOGRAPHIC AND ECONOMIC INFORMATION

King, Snohomish and Island Counties constitute the Seattle-Bellevue-Everett Primary Metropolitan Statistical Area (the "Seattle PMSA"), the fourth-largest metropolitan center on the West Coast. The City of Seattle, encompassing 92 square miles, is the largest city in the Pacific Northwest and is the center of King County's economic activity. Of the State's population, nearly 30 percent reside in King County, and of the County's population, 33 percent live in the City.

### Population

The 1990 and 2000 U.S. Census population figures and recent population estimates for the City, King County and the Seattle PMSA are as follows:

Year	Seattle	King County	Seattle PMSA
2001 <sup>(ii)</sup>	568,100	1,758,300	NA
2000 <sup>(i)</sup>	563,374	1,737,034	2,414,616
1999 <sup>(ii)</sup>	540,500	1,677,000	2,333,600
1998 <sup>(ii)</sup>	539,700	1,665,800	2,306,400
1997 <sup>(ii)</sup>	536,600	1,646,200	2,269,000
1996 <sup>(ii)</sup>	534,700	1,628,800	2,237,200
1990 <sup>(i)</sup>	516,259	1,507,319	1,972,961

(i) Source: U.S. Census

(ii) Source: Washington State Office of Financial Management, Forecasting Division

### Per Capita Income

The following table presents per capita personal income. Per capita income for the State of Washington in 2001 was \$31,582.

	2000	1999	1998	1997	1996
Seattle PMSA	\$ 40,686	\$ 38,858	\$ 35,880	\$ 32,766	\$ 30,775
King County	45,536	43,201	39,335	35,382	33,316
State of Washington	31,230	29,819	28,285	26,469	25,015

Source: U.S. Bureau of Economic Analysis, U.S. Department of Commerce

## Building Permit Value

The table below lists the value of housing construction for which building permits have been issued by the City of Seattle. The value of public construction is not included in this table.

### CITY OF SEATTLE BUILDING PERMITS

Year	New Single Family		New Multifamily		Total Value
	Units	Value	Units	Value	
2002*	164	\$ 25,724,832	878	\$ 64,527,015	\$ 90,251,847
2001	484	73,945,951	3,162	222,190,662	296,136,613
2000	449	64,587,520	4,403	286,312,450	350,899,970
1999	480	65,696,744	3,065	191,087,633	256,784,377
1998	530	71,640,186	3,534	219,183,170	290,823,356
1997	469	68,601,487	1,930	147,134,120	215,735,607

\* Through May 2002.

Source: *Building Permit Activity of City and County in the State of Washington, BP Logistics*

## Retail Activity

The following table presents taxable retail sales in Seattle and King County.

### THE CITY OF SEATTLE AND KING COUNTY TAXABLE RETAIL SALES (000)

Year	The City of Seattle	King County
2002*	\$ 2,943,543	\$ 8,042,808
2001	12,942,596	36,003,190
2000	13,625,486	37,383,541
1999	12,728,470	34,810,738
1998	11,452,958	31,749,546
1997	10,633,522	29,154,617

\* Through first quarter of 2002.

Source: *Washington State Department of Revenue*

## Industry and Employment

The following table provides information regarding the civilian labor force and nonagricultural employment in the Seattle PMSA.

**SEATTLE PMSA  
(KING, SNOHOMISH AND ISLAND COUNTIES)  
RESIDENT CIVILIAN LABOR FORCE AND EMPLOYMENT  
AND NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT**

	<b>Average Annual <sup>(1)</sup></b>				
	<b>2001 <sup>(2)</sup></b>	<b>2000 <sup>(3)</sup></b>	<b>1999</b>	<b>1998</b>	<b>1997</b>
Civilian Labor Force					
Employment	1,292,600	1,344,500	1,357,200	1,337,300	1,297,500
Unemployment	<u>70,400</u>	<u>52,000</u>	<u>47,600</u>	<u>42,700</u>	<u>44,800</u>
Total Civilian Labor Force	1,362,900	1,396,500	1,404,800	1,380,000	1,342,300
Unemployment Rate <sup>(4)</sup>	5.2%	3.7%	3.4%	3.1%	3.3%
Nonagricultural Employment					
Manufacturing					
Aircraft and parts	83,600	82,400	95,100	108,200	101,100
Misc. trans. equipment	6,900	9,100	9,500	9,300	8,800
Food products	14,300	15,200	14,900	16,100	17,000
Wood products and paper	11,900	12,100	12,100	12,500	12,400
Machinery and electrical	21,600	22,100	22,200	21,700	20,700
Instruments	11,500	11,700	11,900	12,100	11,800
Textiles, apparel and leather	4,100	4,400	4,500	4,900	5,100
Printing and publishing	13,600	14,400	13,700	13,800	14,100
Other manufacturing categories	<u>27,900</u>	<u>29,300</u>	<u>30,100</u>	<u>29,700</u>	<u>27,800</u>
Total manufacturing	195,400	200,700	214,000	228,200	218,800
Nonmanufacturing					
Mining and quarrying	1,100	1,100	700	700	700
Contract construction	80,100	84,300	78,400	73,300	66,500
Transp., commun. and utilities	87,100	87,900	84,000	81,000	77,700
Wholesale and retail trade	324,700	335,900	325,000	315,500	304,000
Finance, insurance and real estate	87,400	84,000	84,600	81,500	76,700
Services	429,900	438,000	408,700	390,800	371,400
Government	<u>195,800</u>	<u>190,500</u>	<u>187,000</u>	<u>183,000</u>	<u>178,100</u>
Total nonmanufacturing	1,206,100	1,221,700	1,168,400	1,125,600	1,075,100
Total Nonagricultural Employment	1,401,500	1,422,400	1,382,400	1,353,800	1,293,900

(1) Columns may not add to totals due to rounding.

(2) Preliminary.

(3) Revised.

(4) Unemployment rate as of September 2002 estimated at 6.8 percent.

Source: Washington State Department of Employment Security

The following table presents employment data for major employers in the Puget Sound area, which is defined for the purposes of this section as King, Kitsap, Pierce, and Snohomish Counties, Washington.

**PUGET SOUND AREA  
MAJOR EMPLOYERS**

<b><u>Employer</u></b>	<b><u>Employees</u></b>
The Boeing Company	62,600 <sup>(1)</sup>
Microsoft	24,700 <sup>(2)</sup>
University of Washington	23,500
King County	13,500
City of Seattle	11,200
Safeway	11,000
Group Health Cooperative	9,700
Sisters of Providence Health	8,150
Fred Meyer	8,100
Alaska Air Group	6,000

(1) State-wide employment as of October 2002. (The Puget Sound area is the location for almost all of the Boeing employment within the State.)

(2) As of January 1, 2002.

*Sources: Individual employers, April 2002*

The Boeing Company ("Boeing") had revenues of \$58.0 billion in 1999, \$51.3 billion in 2000 and \$58.2 billion in 2001. Total airplane deliveries in 2001 were 527, compared to 489 in 2000. Boeing remains the largest employer in the Puget Sound area, although total employment within the company dropped from 238,600 to 168,400 and employment within the State dropped from 103,420 to 62,600 between February 1998 and October 2002. In September 2001, Boeing moved its corporate headquarters to Chicago, Illinois. Subsequent to the events of September 11, 2001, Boeing has laid off or given notices of layoffs to more than 30,000 employees (as partially reflected in the table above), and recently announced there may be additional layoffs. A total of 25,000 people have been laid off this year; approximately 16,000 of those were in the Puget Sound area.

Microsoft, which is headquartered in Redmond, is the region's largest high technology employer with more than 48,000 employees worldwide, including 24,700 in the Puget Sound area as of January 1, 2002. Microsoft is a developer and manufacturer of computer operating systems and software. Microsoft's fiscal year 2002 revenues were \$28.4 billion, compared to \$25.3 billion in fiscal year 2001.

### **Other Information**

A variety of additional issues may have an effect on the economy of the Seattle area, including but not limited to transportation infrastructure, endangered species listings, the commercial real estate market, higher energy costs, limits on residential development and resulting housing costs, and the September 11, 2001, terrorist attacks and their effect on aerospace, tourism and travel. The effects of these issues are interdependent and cannot be quantified.

**APPENDIX E**  
**BOOK-ENTRY TRANSFER SYSTEM**

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## BOOK-ENTRY TRANSFER SYSTEM

*The following information has been provided by DTC. The City makes no representation as to the accuracy or completeness thereof. Purchasers of the Bonds (the "Beneficial Owners") should confirm the following with DTC or its participants (the "Participants").*

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds in the principal amount of such maturity and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over two million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Bonds under the DTC system, in Authorized Denominations, must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

When notices are given, they shall be sent by the Bond Registrar to DTC only. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by

Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to DTC. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distribution and dividend payments on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Bond Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Bond Registrar or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions and dividend payments to Cede & Co. (or any other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Bond Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Bond Registrar or the City. Under such circumstances, in the event that a successor securities depository is not obtained, new certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

*The preceding information concerning DTC and DTC's book-entry system has been obtained from sources the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.*

*The following information has been provided by the City.*

Neither the City nor the Bond Registrar will be required to transfer or exchange Bonds during the period between a record date and the next succeeding interest payment date or redemption date. For purposes hereof, record date will mean in the case of each interest payment date, the Bond Registrar's close of business on the 15th day of the month preceding the interest payment date.

With respect to Bonds registered on the Bond Register in the name of Cede and Co., as nominee of DTC, the City and the Bond registrar will have no responsibility or obligation to any Participant or to any person on behalf of whom a Participant holds an interest in the Bonds with respect to (i) the accuracy of the records of DTC, Cede and Co. or any Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any Participant or any other person, other than a bond owner as shown on the Bond Register, of any notice with respect to the Bonds, including any notice of redemption, (iii) the payment to any Participant or any other person, other than a bond owner as shown on the Bond Register, of any amount with respect to principal of or interest on the Bonds, (iv) the selection by DTC or any Participant of any person to receive payment in the event of a partial redemption of the Bonds; (v) any consent given or action taken by DTC as registered owner, or (vi) any other matter. The City and the Bond Registrar may treat and consider Cede and Co., in whose name each Bond is registered on the Bond Register, as the holder and absolute owner of such Bond for the purpose of payment of principal and interest with respect to such Bond, for the purpose of giving notices of redemption and other matters with respect to such Bond, for the purpose of registering transfers with respect to such Bond, and for all other purposes whatsoever.

## **APPENDIX F**

### **CERTAIN INFORMATION REGARDING THE RESERVE POLICY**

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## CERTAIN INFORMATION REGARDING THE RESERVE POLICY

*The information in this section has been provided by Financial Guaranty Insurance Corporation. The City makes no representation as to the accuracy or completeness thereof. Purchasers of the Bonds should confirm the following with Financial Guaranty Insurance Company.*

### **Debt Service Reserve Fund Policy**

Concurrently with the issuance of the Bonds, Financial Guaranty Insurance Company ("Financial Guaranty") will issue its Municipal Bond Debt Service Reserve Fund Policy (the "Reserve Policy"). The Reserve Policy unconditionally guarantees the payment of that portion of the principal or accreted value (as applicable) of and interest on the bonds described therein (as used under this heading, the "Bonds") which has become due for payment, but shall be unpaid by reason of nonpayment by the Issuer, provided that the aggregate amount paid under the Reserve Policy may not exceed the maximum amount set forth in the Reserve Policy (which will be an amount equal to the Reserve Requirement for the Bonds). Financial Guaranty will make such payments to the Bond Registrar for the Bonds on the later of the date on which such principal, accreted value or interest (as applicable) is due or on the business day next following the day on which Financial Guaranty shall have received telephonic or telegraphic notice subsequently confirmed in writing or written notice by registered or certified mail from the Bond Registrar of the nonpayment of such amount by the Issuer. The term "nonpayment" in respect of a Bond includes any payment of principal or interest made to an owner of a Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final nonappealable order of a court having competent jurisdiction.

The Reserve Policy is non-cancellable and the premium will be fully paid at the time of delivery of the Bonds. The Reserve Policy covers failure to pay principal of the Bonds on their respective stated maturity dates, or dates on which the same shall have been called for mandatory sinking fund redemption, and not on any other date on which the Bonds may have been accelerated, and covers the failure to pay an installment of interest on the stated date for its payment. [The Reserve Policy shall terminate on the earlier of the scheduled final maturity date of the Bonds or the date on which no Bonds are outstanding under the authorizing document.

Generally, in connection with its issuance of a Reserve Policy, Financial Guaranty requires, among other things, (i) that, so long as it has not failed to comply with its payment obligations under the Reserve Policy, it be granted the power to exercise any remedies available at law or under the authorizing document other than (A) acceleration of the Bonds or (B) remedies which would adversely affect holders in the event that the issuer fails to reimburse Financial Guaranty for any draws on the Reserve Policy; and (ii) that any amendment or supplement to or other modification of the principal legal documents be subject to Financial Guaranty's consent. The specific rights, if any, granted to Financial Guaranty in connection with its issuance of the Reserve Policy are set forth in the description of the principal legal documents appearing elsewhere in this Official Statement. Reference should be made as well to such description for a discussion of the circumstances, if any, under which the issuer of the Bonds is required to provide additional or substitute credit enhancement, and related matters.

The Reserve Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Guaranty is a wholly-owned subsidiary of FGIC Corporation (the "Corporation"), a Delaware holding company. The Corporation is a subsidiary of General Electric Capital Corporation ("GE Capital"). Neither the Corporation nor GE Capital is obligated to pay the debts of or the claims against Financial Guaranty. Financial Guaranty is a monoline financial guaranty insurer domiciled in the State of New York and subject to regulation by the State of New York Insurance Department. As of June 30, 2002, the total capital and surplus of Financial Guaranty was approximately \$1.01 billion. Financial Guaranty prepares financial statements on the basis of both statutory accounting principles and generally accepted accounting principles. Copies of such financial statements may be obtained by writing to Financial Guaranty at 125 Park Avenue, New York, New York 10017, Attention: Communications Department (telephone number: 212-312-3000) or to the New York State Insurance Department at 25 Beaver Street, New York, New York 10004-2319, Attention: Financial Condition Property/Casualty Bureau (telephone number: 212-480-5187).



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115 Broadway  
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(212) 312-3000  
(800) 352-0001

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## Municipal Bond Debt Service Reserve Fund Policy

**Issuer:**

**Policy Number:**

**Control Number:** 0010001

**Bonds:** , together with any parity obligations issued under the authorizing document, as amended and supplemented, and secured by the same debt service reserve fund

**Premium:**

**Maximum Amount:**

**Paying Agent:**

**Termination Date:**

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay the paying agent named above or its successor, as paying agent for the Bonds (the "Paying Agent"), for the benefit of Bondholders, that portion (not to exceed the Maximum Amount set forth above) of the amount required to pay principal and interest (but not any prepayment premium) on the Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer. No payment shall be due hereunder for any event of Nonpayment that occurs after the Termination Date set forth above.

Financial Guaranty will make such payment to the Paying Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. Upon such disbursement, Financial Guaranty shall become entitled to reimbursement therefor (together with interest thereon) all as provided in the Debt Service Reserve Fund Policy Agreement between the Issuer and Financial Guaranty dated as of the Effective Date of this Policy. The Maximum Amount shall be automatically reinstated when and to the extent that the Issuer repays amounts disbursed hereunder, but shall not be reinstated to the extent of amounts received by Financial Guaranty constituting interest on amounts disbursed to the Paying Agent pursuant to this Policy. Financial Guaranty shall provide Notice to the Paying Agent of any reinstatement of any portion of the Maximum Amount within one Business Day of such reinstatement.

This Policy is non-cancellable for any reason, including the failure of the Issuer to reimburse Financial Guaranty for any payment made hereunder.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided

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## Municipal Bond Debt Service Reserve Fund Policy

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sufficient funds to the Paying Agent for payment in full of all principal and interest Due for Payment on such Bond and includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from the Paying Agent for the Bonds to Financial Guaranty or from Financial Guaranty to the Paying Agent, as the case may be. "Business Day" means any day other than a Saturday, Sunday or a day on which the Paying Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

A handwritten signature in cursive script, reading "Richard M. Reif".

President

Effective Date:

Authorized Representative

State Street Bank and Trust Company, N.A., acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

A handwritten signature in cursive script, reading "Quincy Brown".

Authorized Officer

**APPENDIX G**

**MUNICIPAL BOND INSURANCE POLICY SPECIMEN**

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## Municipal Bond New Issue Insurance Policy

**Issuer:**

**Policy Number:**

**Control Number:** 0010001

**Bonds:**

**Premium:**

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to State Street Bank and Trust Company, N.A., or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date

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## **Municipal Bond New Issue Insurance Policy**

for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

A handwritten signature in cursive script, reading "Deborah M. Reif".

**President**

**Effective Date:**

**Authorized Representative**

State Street Bank and Trust Company, N.A., acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

A handwritten signature in cursive script, appearing to read "Quincy Brown".

**Authorized Officer**

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New York, NY 10006  
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## Endorsement To Financial Guaranty Insurance Company Insurance Policy

**Policy Number:**

**Control Number:** 0010001

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

A handwritten signature in cursive script, reading "Deborah M. Reif".

**President**

**Effective Date:**

**Authorized Representative**

**Acknowledged as of the Effective Date written above:**

A handwritten signature in cursive script, appearing to read "Quincy Brown".

**Authorized Officer**  
**State Street Bank and Trust Company, N.A., as Fiscal Agent**